

Chapter 3

Economic Policies in 1959

THE PRIMARY OBJECTIVES of the Administration's economic policies in 1959 were, first, to extend the economy's expansion, already well advanced when the year began; second, to counter the development of imbalances that might jeopardize a sound expansion; third, to restrain potential inflationary pressures; and, fourth, to improve the economic basis for the Nation's international policies.

The present chapter describes briefly how the Federal Government's fiscal and monetary policies were administered during the year to help achieve these objectives. It also summarizes the steps taken directly to strengthen the Nation's balance of international payments and to achieve program objectives in two areas in which the Federal Government's role is especially important—housing and highway construction. Activities conducted under other continuing programs that have a significant bearing on economic growth and well-being, including measures taken in agriculture, are dealt with in Chapter 4.

FEDERAL FISCAL POLICIES

As the year 1959 began, a budget deficit of substantial size was indicated for the fiscal year ending June 30. Although it proved to be \$444 million smaller than was estimated in January 1959, it amounted to \$12.4 billion, more than four times the deficit in the fiscal year 1958 (Chart 13).

The two factors jointly responsible for this budgetary outcome were a sharp decrease in Federal revenues below what might have been obtained if there had not been an economic recession in 1957–58, and a sizable increase in Federal expenditures. Although tax receipts in fiscal 1959 fell substantially below first estimates, they were only slightly under those of the fiscal year 1958. A decrease of nearly \$3 billion in corporate income tax receipts was offset in part by a rise of \$2 billion in receipts from individual income taxes. The former reflected the impact of recession on corporate earnings in the calendar year 1958; the latter reflected the steady rise in personal incomes which, by mid-1959, were significantly higher than they had been a year earlier.

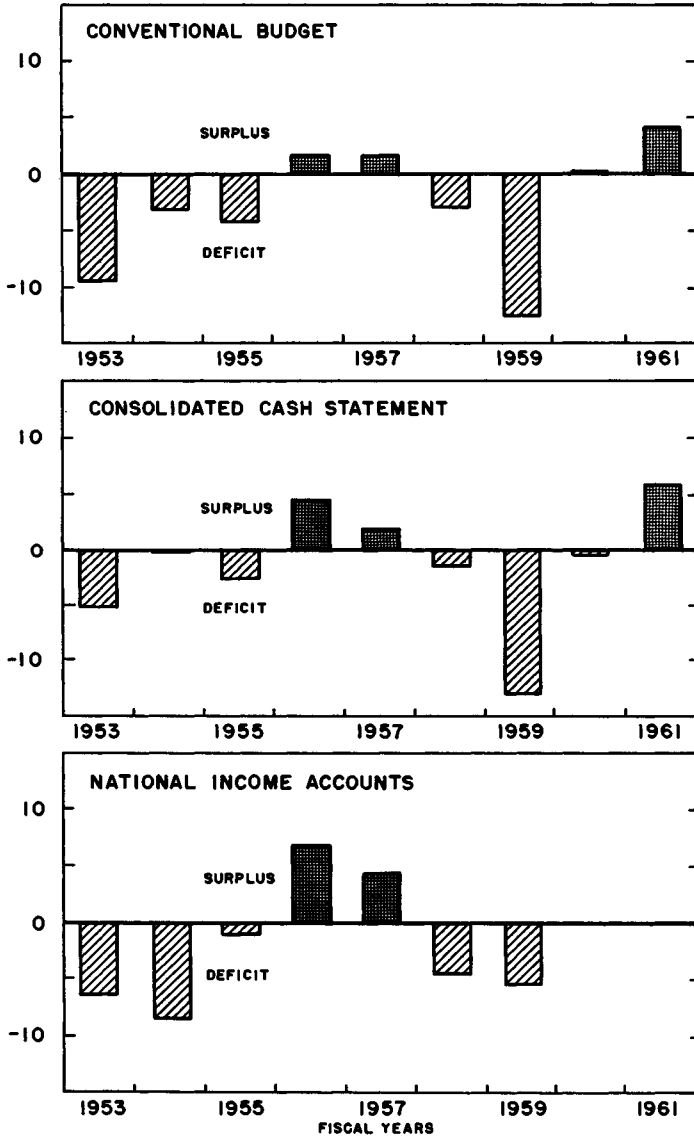
On the expenditure side, all major categories except interest payments on the public debt rose in fiscal 1959 (Table 6). Part of the increase can be attributed directly to actions taken to help counteract economic recession.

CHART 13

Surplus or Deficit of the Federal Government

A balanced budget is estimated for fiscal year 1960, and a sizable surplus for fiscal year 1961.

BILLIONS OF DOLLARS



SOURCES: TREASURY DEPARTMENT, BUREAU OF THE BUDGET, AND DEPARTMENT OF COMMERCE.

Expenditures in this category involved mainly advances to the States for the temporary extension of unemployment compensation payments, purchases of mortgages by the Federal National Mortgage Association, and the acceleration of construction of water projects and other public works. Yet these increases were not large in relation to the total rise in spending. The major items were a rise of \$2.3 billion for national security programs; an increase of \$2.1 billion for agricultural programs; an additional subscription of \$1.4 billion to the International Monetary Fund; and substantial amounts for higher pay for Government personnel (both civilian and military), increased public assistance grants, larger expenditures for health, increased grants to local governments for the support of education in federally affected areas, and an increased Post Office deficit.

TABLE 6.—*Federal budget expenditures, 1958-61*

[Fiscal years, billions of dollars]

| Function | 1958 | 1959 | 1960 (estimated) | 1961 (estimated) |
|---|-------|-------|---------------------|---------------------|
| Total budget expenditures..... | 71.9 | 80.7 | 78.4 | 79.8 |
| Major national security..... | 44.1 | 46.4 | 45.6 | 45.6 |
| International affairs and finance..... | 2.2 | 3.8 | 2.1 | 2.2 |
| Commerce and housing..... | 2.1 | 3.4 | 3.0 | 2.7 |
| Agriculture and agricultural resources..... | 4.4 | 6.5 | 5.1 | 5.6 |
| Natural resources..... | 1.5 | 1.7 | 1.8 | 1.9 |
| Labor and welfare..... | 3.4 | 4.4 | 4.4 | 4.6 |
| Veterans services and benefits..... | 5.0 | 5.2 | 5.2 | 5.5 |
| Interest..... | 7.7 | 7.7 | 9.4 | 9.6 |
| General government..... | 1.4 | 1.6 | 1.7 | 1.9 |
| Allowance for contingencies..... | ----- | ----- | .1 | .2 |

NOTE.—Detail will not necessarily add to totals because of rounding.

Sources: Treasury Department and Bureau of the Budget.

In addition to these expenditures, all encompassed within the conventional administrative budget, payments from the old-age and survivors trust fund and from the highway trust fund, which are reflected in the consolidated cash accounts, were substantially higher in fiscal 1959 than in the previous fiscal year. An excess of payments over receipts in each of these two funds and in the unemployment trust fund accounted for the fact that in the fiscal year 1959, in contrast to most previous years of deficit, the excess of the Federal Government's payments over its receipts in the consolidated cash accounts was larger than the deficit in the conventional administrative budget.

Largely owing to seasonal factors, by far the greater part of the budget deficit in fiscal 1959 occurred in the six months ended December 1958—\$11.0 billion, contrasted with \$1.4 billion in the next six months ended June 1959. Similarly, in the consolidated cash accounts, \$12.6 billion of the total excess of payments over receipts occurred in the six months ended December 1958, and only \$400 million in the next six months. This substantial lessening of the deficit between the first and second halves of the fiscal year 1959 reflected, in addition to seasonal factors, a significant rise in revenues attributable to economic recovery.

The changes in the deficit between the first and second halves of the fiscal year and their relationship to economic developments become clearer when stated in terms of the national income accounts, which reflect the accrual of tax liabilities as they are incurred and also give expression to certain other circumstances affecting the budget. In these terms, the peak of the deficit (\$10.9 billion, seasonally adjusted) was in the April-June quarter of 1958, although the impact upon the administrative budget and the consolidated cash accounts was felt principally in the fiscal year 1959. In the April-June quarter of 1959, the budget, again in national accounts terms, was already showing a small surplus.

With a continuing economic advance in prospect, the Administration's fiscal policy as set forth in the January 1959 Budget was designed to achieve a balance of revenues and expenditures, to forestall inflationary pressures, to promote a sustainable rate of expansion, and to help restrain the rapidly rising pressures of demand in capital and credit markets. It contemplated expenditures and receipts balanced at \$77 billion.

Actual expenditures during the first half of fiscal 1960 exceeded the rate projected in the January 1959 Budget, partly as a result of increases that had not been anticipated in expenditure programs not directly subject to administrative control, partly because of the continuing uncorrected deficit of the Post Office Department, and partly because appropriations enacted for certain Federal programs were higher than requested. On the other hand, despite the adverse effect of the prolonged steel strike on Federal corporate and individual income tax collections, the rapid recovery and expansion of the economy now suggest that revenues will be higher than estimated in January 1959; accordingly, a budget surplus of \$200 million is anticipated.

FEDERAL DEBT MANAGEMENT

The Federal Government's indebtedness rose in the calendar year 1959 by \$7.9 billion, almost entirely as a result of the budget deficit. To this financing requirement was added the refinancing of \$52.3 billion of maturing marketable issues (exclusive of \$24 billion of weekly bills), which was accomplished by refunding \$37.9 billion and paying off \$14.4 billion. These latter payments plus the net redemptions during the year of savings bonds and other nonmarketable debt added further to the Treasury's 1959 cash financing needs.

As far as possible, the Administration sought to conduct these large financing operations without contributing to inflationary pressures and on as economical a basis as conditions permitted. Whenever feasible, it sought to lengthen the maturity structure of the debt. Two issues of securities with long-term maturities—\$884 million of a 4 percent bond of 1980, issued at 99, and \$619 million of a 4 percent bond of 1969—were marketed during the first part of the year. Before midyear, however, the general rise in interest rates stemming from increasing private and public demands for

capital and credit made United States Government securities with maturities of more than 5 years no longer competitive within the range allowed by the statutory maximum rate of $4\frac{1}{4}$ percent. In recognition of this situation, the Congress was requested on June 8 to remove the $4\frac{1}{4}$ percent interest rate limitation on new issues of Federal securities with maturities of over 5 years.

Since no action was taken on this request, Treasury financing for the remainder of the year became limited to the issuance of securities with maturities of 5 years or less. This contributed to the decline in the average maturity of the public debt from 4 years and 7 months at the end of June 1959 to 4 years and 4 months at the end of December. Partly because demands for short-term credit in this period were particularly large in the private sector of the economy, the additional pressures on short-term credit markets incident to Treasury financing caused interest rates on short- and intermediate-term Government securities, and on private borrowings as well, to rise considerably more than rates on long-term issues. Indeed, during much of the year, rates on Federal securities with maturities of less than 5 years, except on the very shortest-term issues, actually exceeded rates on long-term securities. Thus, the statutory limitation on interest rates on longer-term United States securities made Treasury financing more costly in its immediate effect, and possibly also in its longer-term effect, than it might otherwise have been.

Still more serious, the interest rate limitation impaired the ability of the Federal Government to manage its debt with a minimum potential inflationary impact. Excessive reliance on short-term Government securities is an undesirable financing practice, since such securities are in some respects the equivalent of money and, like additions to the money supply, help stimulate expenditures. Moreover, the frequent refunding entailed by a large volume of short-term debt may complicate, in the future, the pursuit of the monetary policy most appropriate to the economy's needs.

The adverse effects of this constraint on longer-term financing were minimized during the year by a more orderly spacing of short-term issues and by the issuance, insofar as feasible, of securities with maturities close to 5 years. An exchange offering in July, at $4\frac{3}{4}$ percent, of marketable Treasury notes with maturity of almost 5 years totaled \$4.2 billion; and a cash offering in October of 5 percent notes of similar maturity amounted to \$2.3 billion. The October offering attracted a much broader range of individual savers than usual. Subscriptions included \$941 million from 108,000 subscribers—largely individuals—who submitted paid-up subscriptions for \$25,000 or less. Another intermediate-term issue, a $4\frac{7}{8}$ percent 4-year note, was offered as part of a refunding operation in November, and issues of these notes to holders of two maturing securities totaled \$3 billion. The $4\frac{3}{4}$ percent notes issued in July were reopened in November for holders of Series F and G savings bonds maturing in 1960, and close to \$800 million was added to the issue in this way. Thus, between July and November more

than \$10 billion of new Treasury issues were placed in the 4-5 year area. These intermediate-term issues, however, did not eliminate the need for the longer-term funding of a significant part of the Federal debt.

Adjustments were also made during the year in the United States Savings Bond program. Sales of Series E and H bonds, some \$42.5 billion of which are held by individuals, were adversely affected as the interest rates paid on other forms of savings increased steadily, making the 3¼ percent interest rate on these securities increasingly less attractive. As indicated above, the net drain on Treasury cash on the part of savings bonds of all series added to the already large financing requirements of the Federal Government.

Accordingly, a recommendation was made to the Congress that the 3.26 percent interest limitation on savings bonds be removed to permit the Treasury to restore the attractiveness of these securities relative to other savings media. In September, legislation was enacted to increase the maximum limit on the interest rate on savings bonds to 4¼ percent, and the rate on new Series E and H savings bonds was promptly raised to 3¾ percent, effective June 1, 1959. The return on outstanding Series E and H bonds purchased before June 1 was also increased by approximately ½ percent over their remaining life, if held to maturity. November and December were the first months in 1959 in which sales of new Series E and H savings bonds exceeded those in the corresponding months a year earlier; and by the year-end the amount outstanding had recovered to the level of the end of 1958.

MONETARY AND CREDIT POLICY

Monetary policy in 1959 was designed to influence the availability of funds and the liquidity of the economy in ways that would help foster the steady growth of production and employment and prevent the development of potential inflationary forces. In seeking to achieve these results, Federal Reserve authorities increased the degree of the restraint that they had been exercising on credit markets since August 1958, when recovery from recession called for a gradual change in policy.

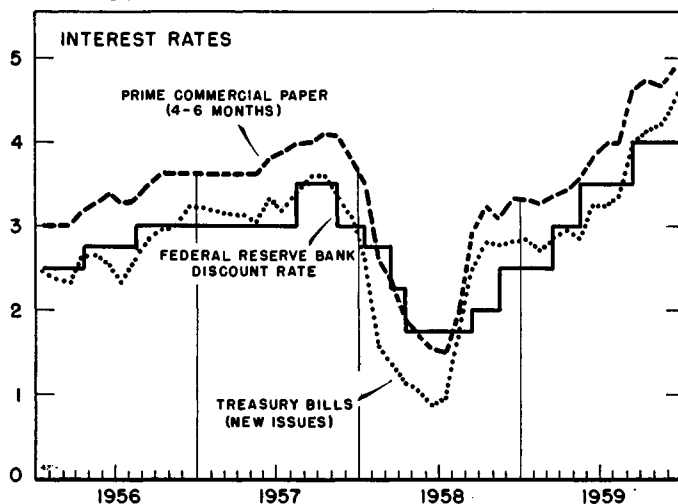
In pursuance of a policy of greater restraint, Federal Reserve Banks in March, May, and September 1959 raised the discount rate charged by them to member banks from 2½ to 4 percent, paralleling the rise in the interest rate on 3-month Treasury bills (Chart 14). Open market operations in United States Government securities were a major policy tool used to influence member bank reserves. With Federal Reserve operations in the Government securities market withdrawing somewhat more reserve funds than usual on balance over the first half of the year, and with the demand for bank credit expanding, commercial banks were under pressure to enlarge their borrowings at Federal Reserve Banks (Chart 15). These borrowings increased from a range of \$500-700 million to around \$1 billion about mid-year, and they remained near the higher level during the rest of

CHART 14

Interest Rates and Bond Yields

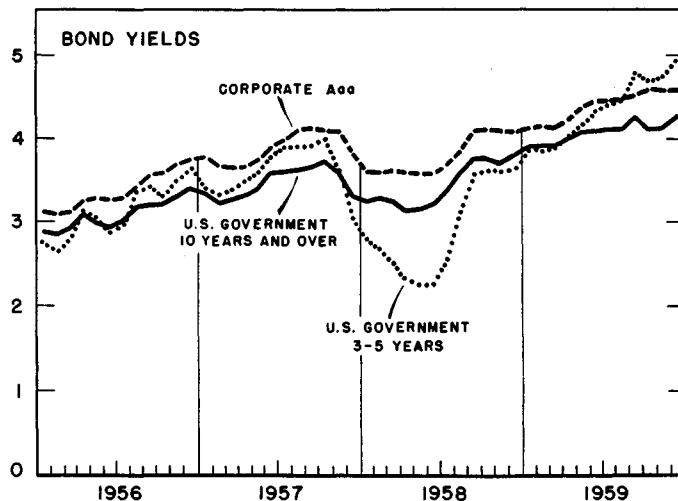
Short-term interest rates rose sharply in 1959 . . .

PERCENT PER ANNUM



. . . and long-term rates increased during much of the year.

PERCENT PER ANNUM

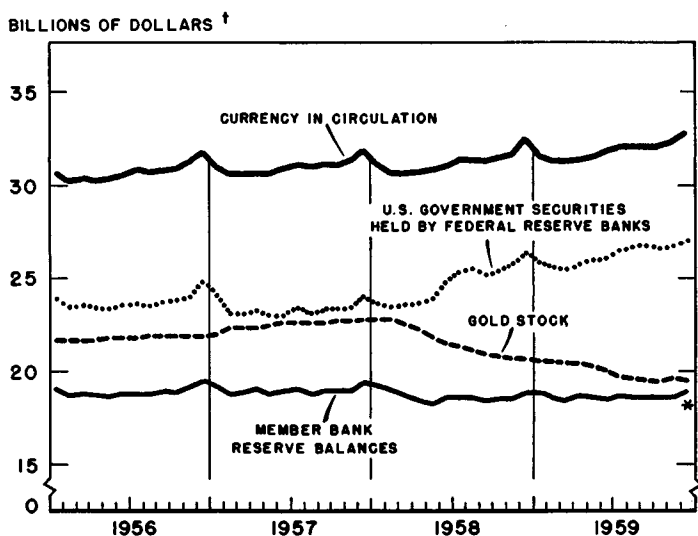


SOURCES: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, TREASURY DEPARTMENT, AND MOODY'S INVESTORS SERVICE.

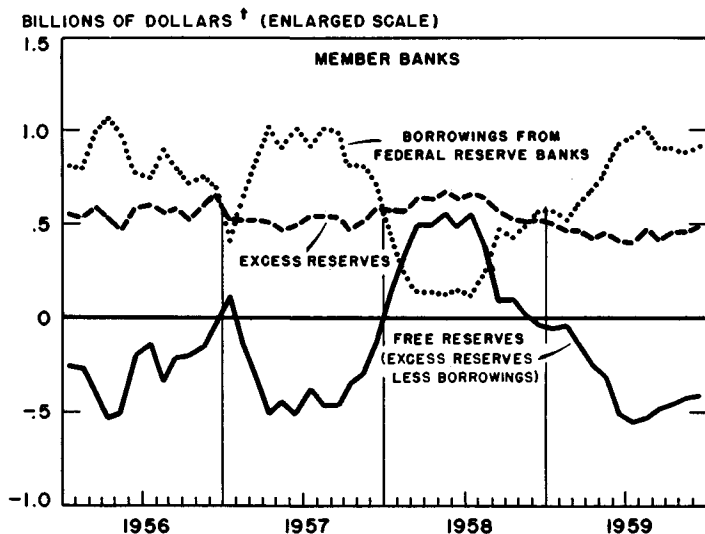
CHART 15

Member Bank Reserves

Federal Reserve purchases of U.S. securities helped offset effects on reserves of increased currency and gold outflow in 1959.



Borrowings at Federal Reserve Banks surpassed excess reserves of member banks by late 1958, and the gap widened thereafter.



† AVERAGES OF DAILY FIGURES.

* INCLUDES VAULT CASH ALLOWED.

SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

the year. Over the year as a whole, total member bank reserves available for monetary and credit expansion changed only slightly. Reserves supplied by open market purchases of United States Government securities, when added to those supplied through the increased borrowings and other factors, sufficed to offset a drain on bank reserves resulting from changes in the gold stock and in the amount of currency in circulation.

Some additional funds for seasonal monetary and credit needs were released in early December when the Federal Reserve took its first step in exercising the authority provided by Public Law 86-114 to include vault cash in meeting required reserves. Country banks with vault cash holdings greater than 4 percent of demand deposits were allowed to count the excess to meet their required reserves, while central reserve city and reserve city banks were permitted to count any excess greater than 2 percent. However, this move released only \$270 million of vault cash, out of an average of \$2.3 billion held by member banks.

Reflecting all developments influencing the availability of reserve funds, the money supply (demand deposits and currency) grew by about 0.5 percent in 1959, compared with 4 percent during 1958. Additions to time deposits of commercial banks also were smaller; they amounted to about 3.5 percent, compared with an increase of 13 percent in 1958. At the same time, the amount of marketable U.S. Government securities with maturities of less than one year increased by about \$7 billion.

Regulations T and U were amended by the Federal Reserve authorities, as of June 15, to make margin requirements more effective as a restraint on the use of credit in stock market transactions. No change was made in the 90 percent margin requirement.

FEDERAL HOUSING AND HOME FINANCING

Increasing demands for capital and credit in 1959 led to more intensive competition for funds in the markets from which much of the financing of home construction and purchase is normally drawn. As construction financing and commitments for mortgage funds became less readily available in an increasing number of housing market areas, and as borrowing costs rose, numerous adjustments were required in Federal housing and home financing programs. These actions were taken to facilitate the flow of private funds into home financing and thereby to help sustain an adequate level of home building and to avoid unnecessary demands for Federal financial assistance.

First, adjustments became necessary in the maximum interest rate that private lending institutions are permitted to charge on Government-insured or guaranteed home mortgage and project loans. In the absence of such adjustments, the availability of private funds for families wishing to purchase homes with federally insured or guaranteed mortgages and for the construction of apartment projects under such financing would have decreased rapidly. In March, the Federal Housing Administration raised to 4½

percent the maximum permissible interest rates on armed service project mortgages. In September, the maximum permissible interest rate on FHA-insured home loans was raised to $5\frac{3}{4}$ percent. Pursuant to the authority granted by a 1959 legislative act, the Veterans Administration in July increased to $5\frac{1}{4}$ percent the ceiling rate chargeable on its guaranteed and insured home loans and charged by it on direct home loans. Also, following approval of the Housing Act of 1959, on September 23, 1959, interest rate ceilings were raised on FHA-insured loans on rental and cooperative projects; the maximum size of home loans eligible for insurance by the Federal Housing Administration was increased; and the limits were raised on the size of mortgages that could be insured for rental housing projects. Other adjustments permitted by the new legislation were put into effect where needed to take account of changes in construction cost and design that had taken place in earlier years. The Farmers Home Administration raised the interest rate on direct home loans to farmers from $4\frac{1}{2}$ to 5 percent in September 1959; a similar increase had been made in December 1958 on certain types of insured home loans.

Second, changes were required in Federal programs that supplement and support private sources of credit and capital for home construction and purchase. The Federal National Mortgage Association made several reductions in its schedule of mortgage purchase prices under special assistance programs. In the Association's secondary market operations, prices on FHA-insured and VA-guaranteed $5\frac{1}{4}$ percent loans were reduced in a series of five changes, and corresponding reductions were made in the prices of mortgages bearing other interest rates. The several Federal Home Loan Banks advanced interest rates on loans to member associations to bring the cost of these borrowings into closer alignment with conditions in the capital markets.

Despite these changes, total demands for assistance under Federal programs that supply funds directly to the home mortgage market increased rapidly during the year, as progressively higher yields on long-term non-mortgage investments tended increasingly to attract investment funds that might otherwise have been available for the purchase of home mortgages. In 1959, the Federal National Mortgage Association purchased \$735 million of mortgages under its secondary market operations program and \$1,172 million under its special assistance programs; purchases in 1958 had totaled \$623 million under all programs. The advances of the Federal Home Loan Banks to their member institutions, most of which are savings and loan associations, increased by approximately \$760 million over the year, a rise of nearly 60 percent; the 1958 increase in these advances had been only \$33 million, or 3 percent. The Veterans Administration made \$200 million of loans to veterans for the purchase of homes in areas eligible for such assistance under its direct lending program. And the Farmers Home Administration extended credits of \$84 million for the purchase or improvement of farm homes (Table 7).

TABLE 7.—*Residential mortgage holdings of selected Federal programs, 1958-59*

[Millions of dollars]

| End of period | Federal National Mortgage Association | | Veterans Administration, direct home loans | Farmers Home Administration | |
|---------------------|---------------------------------------|------------------------------|--|-----------------------------|-----------------------------|
| | Secondary market activities | Special assistance functions | | Direct loans | Secondary market activities |
| 1958: December..... | 1,381 | 419 | 743 | 402 | 12 |
| 1959: March..... | 1,464 | 820 | 778 | 413 | 22 |
| June..... | 1,574 | 1,211 | 821 | 429 | 32 |
| September..... | 1,777 | 1,483 | 855 | 447 | 37 |
| December..... | 2,052 | 1,568 | 900 | 452 | 39 |

Sources: Federal National Mortgage Association, Veterans Administration, and Farmers Home Administration.

These direct financial supports of home financing themselves involved demands on the capital markets. To obtain additional funds, the Federal National Mortgage Association increased its debentures to the public by \$540 million during the year. It also increased by \$1 billion its use of funds furnished by the Treasury. In other home loan operations, the Veterans Administration used \$150 million and the Farmers Home Administration \$115 million of Federal funds. The expanded advances of the Federal Home Loan Banks necessitated an increase of more than \$1 billion in their capital market borrowings.

FEDERAL AID FOR HIGHWAYS

Progress continued during the past year in carrying forward the interstate highway program initiated in 1956. By the end of 1959, some 5,300 miles of this nation-wide system of highways had been completed, and some 5,000 miles of additional roads were under contract for construction.

The cost of this construction is financed predominantly by the Federal Government out of taxes on highway fuels and certain other excise taxes paid by highway users. To the end of 1959, total construction expenditures on the program amounted to \$4.3 billion, of which some \$3.6 billion was financed by grants to the States from the highway trust fund. During this period, the Federal Government also made grants to the States of \$3.5 billion for primary and secondary highways and roads under a Federal assistance program that extends back for many years (Table 8).

Under legislation enacted in 1958, apportionments of grant-in-aid funds to the States for highway construction under Federal-aid programs were sharply increased to combat the recession. As a result, the highway trust fund, in the absence of additional revenues, faced prospective deficits beginning in the fiscal year 1960. Moreover, the likelihood that such deficits would arise made it necessary, under the mandatory terms of the basic legislation, to discontinue apportionments to the States on behalf of the interstate program until a prospective balance of revenues and disbursements in the trust fund could be foreseen.

TABLE 8.—*Obligations and payments on Federal-aid highway programs, 1957-59*

[Millions of dollars]

| Period | New obligations for highway construction ¹ | | | Federal payments to States | | |
|-----------------------------------|---|--------------------|-----------------------------|----------------------------|--------------------|-----------------------------|
| | Total | Interstate program | Other programs ² | Total | Interstate program | Other programs ² |
| 1957: First quarter..... | 781 | 418 | 364 | 214 | 82 | 132 |
| Second quarter..... | 896 | 410 | 486 | 235 | 64 | 171 |
| Third quarter..... | 803 | 406 | 398 | 362 | 120 | 242 |
| Fourth quarter..... | 1,174 | 833 | 341 | 423 | 173 | 250 |
| 1958: First quarter..... | 770 | 386 | 385 | 269 | 129 | 140 |
| Second quarter..... | 1,378 | 598 | 780 | 410 | 251 | 159 |
| Third quarter..... | 1,399 | 737 | 662 | 643 | 365 | 278 |
| Fourth quarter..... | 1,266 | 650 | 615 | 878 | 509 | 369 |
| 1959: First quarter..... | 852 | 514 | 338 | 491 | 293 | 198 |
| Second quarter..... | 1,142 | 605 | 537 | 513 | 315 | 198 |
| Third quarter..... | 599 | 306 | 293 | 1,101 | 667 | 434 |
| Fourth quarter ³ | 615 | 246 | 369 | 857 | 561 | 296 |

¹ Includes Federal and State matching funds.² Includes primary, secondary, and urban extension highways.³ Preliminary estimates by Council of Economic Advisers.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce (except as noted).

In order to avoid the costly cutback in highway planning and construction that a cessation of apportionments would entail, and to assure continuance of the interstate program on a self-sustaining basis and on the scale originally scheduled, the Administration requested an increase of 1½ cents per gallon, for a period of five years starting July 1, 1959, in the excise tax levied on highway fuels. The Congress chose to raise the tax by only one cent per gallon, starting October 1, 1959 and continuing until July 1, 1961, and during the subsequent three years to transfer from general revenues to the trust fund part of the revenue from the excise taxes on automobiles, automobile parts and accessories. However, these revenues are less than are needed to maintain apportionments at the level provided for in the 1958 legislation. Accordingly, while the 1959 legislation authorized apportionments of \$2.0 billion, the amount apportioned to the States in October 1959, covering the fiscal year 1961, was necessarily limited to \$1.8 billion.

FOREIGN ECONOMIC POLICY

The Administration continued in 1959 to provide substantial assistance for the economic development of less developed areas as well as military and economic assistance to countries of the free world. The importance of these programs and their need for adequate budgetary support was emphasized in a special message of the President transmitted to the Congress on March 13, 1959. During the year, the United States increased its participation in existing international financial institutions and encouraged the setting up of certain new institutions designed to promote the flow of capital to underdeveloped countries. The United States also continued its traditional efforts to reduce impediments to international trade.

The economic potential and the security of the free world, and the future growth of the less developed countries, depend in large measure upon the economic strength of the United States in both its domestic and its international aspects. With a view to safeguarding that strength, action was taken in 1959 to improve the United States balance of payments, in which a sizable deficit was anticipated for the year. The payments deficit underlined the importance of the firm fiscal and monetary policies being pursued to restrain domestic inflationary pressures and to assure stable economic growth. These policies served to maintain confidence in the dollar throughout the world. They also helped to lessen the danger that, through inflation, the competitive strength of United States trade in foreign markets might be weakened.

Throughout 1959, the United States emphasized that the strong economic position attained by the other industrial countries justified moves on their part to liberalize commercial policies and to expand foreign investment. A great rise had occurred in their gold and exchange reserves, their balance of payments positions had become strong, and major progress had been made toward currency convertibility. Thus, at the Fifteenth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, it was agreed that discriminatory import restrictions based on financial reasons, largely affecting the United States, should quickly be eliminated. Moreover, the rise in reserves of most industrial countries provides the basis for reducing quantitative import restrictions generally. The United States pressed this view at other international meetings also, as well as directly with the governments concerned. By the end of the year, many countries had taken action to reduce discriminatory restrictions against imports from and travel to the United States. A number of these countries indicated their intention to take further action in the near future. The United States also asked the industrially advanced nations to increase their assistance to less developed countries. The economic progress of these industrial countries was clear evidence of their capacity to provide increased aid.

A specific step to improve the balance of payments was taken with the announcement that the Development Loan Fund (DLF) henceforth would place primary emphasis, in its lending to the less developed countries, on the financing of goods and services which these countries require from the United States. This decision was taken in the knowledge that other industrial countries are now capable of financing their exports of capital goods to these countries on a long-term basis. Also, steps were taken to transfer from the International Cooperation Administration (ICA) to the DLF, to the greatest extent possible, assistance which ICA affords in the form of aid to specific development projects. Projects so transferred are subject to the new DLF financing procedures. There is reason to expect that these measures, in addition to strengthening the United States balance of payments, will bring about an increased volume of foreign lending by other industrial countries.

Several steps were taken during the year to augment the flow of capital from the United States and other nations to the less developed countries and to strengthen international financial agencies. On June 17, the President signed legislation authorizing an increase in the subscriptions of the United States to the International Monetary Fund and to the International Bank for Reconstruction and Development. The added subscriptions amounted to \$1,375 million to the Fund and \$3,175 million to the Bank.

A second step to expand the flow of capital was taken when the United States joined with the Latin American countries in the establishment of the Inter-American Development Bank. It is contemplated that the Bank will have an ordinary capital of \$850 million, in addition to a separate fund of \$150 million for special operations. The United States contribution will amount to \$450 million.

A third move was the decision taken by the Governors of the International Bank for Reconstruction and Development, on the initiative of the United States, to proceed with the formulation of plans for an International Development Association (IDA). This institution would have resources of about \$1 billion, including a prospective United States contribution of somewhat more than \$300 million, payable over approximately five years. It would be closely affiliated with the International Bank for Reconstruction and Development and would give greater flexibility to the operations of that institution. It would also facilitate the use, for development purposes, of the local currencies of certain member countries provided to IDA out of holdings by other members. Such use would be with the consent of the countries whose currencies were involved.

The economic aid extended in various forms by the United States to other countries—almost entirely to less developed countries—totaled about \$3 billion in the year ended September 1959. Disbursements under the Mutual Security Program for economic assistance amounted to about \$1.4 billion, exclusive of disbursements by the Development Loan Fund. The latter, whose operations were still in an initial stage, disbursed \$114 million and committed \$393 million. Under Public Law 480, agricultural surpluses were disposed of as follows: \$736 million against local currencies; \$133 million through transfers to private welfare and international relief agencies for foreign operations; and \$58 million through deliveries for famine and other emergency relief purposes. The Export-Import Bank disbursed \$598 million in loans and committed \$693 million, while receiving repayments of \$301 million. During the year, it increased the portion of suppliers' credits which it will finance.

Under the national security provision of the trade agreements legislation, the President approved a finding that oil and oil products were being imported in such amounts as to threaten to impair the national security and instituted a program for regulating these imports. The Director of the Office of Civil and Defense Mobilization found no threat to national security from imports of certain heavy electrical equipment, fluorspar, and

cobalt. Under the escape clause provision of the trade agreements legislation, the President approved a Tariff Commission finding of injury from imports of certain stainless steel flatware products, but disapproved such findings for tartaric acid and cream of tartar. The Tariff Commission found no injury in eight cases and terminated three other cases without formal findings.

In pursuance of its policy of seeking a reduction of barriers to international trade, the United States in October 1958 proposed to the Contracting Parties to the General Agreement on Tariffs and Trade that they sponsor a new round of multilateral tariff negotiations. The proposal was approved by the Contracting Parties in May 1959, and the tariff conference is scheduled to begin in September 1960. Its successful conclusion will permit further progress toward the attainment of higher levels of trade.