

Chapter 1

Economic Growth in a Free Society

THE VIGOR of the underlying forces that make for growth in the American economy was clearly evident in 1959. Employment, production, and income at the end of the year were substantially above the levels reached at the end of 1958, despite the prolonged strike in the steel industry. As this Economic Report is transmitted to the Congress, the outlook is good for an extension of growth through 1960 and beyond.

In these circumstances, it is appropriate that the first chapter of this Report should be addressed to the question of how best to extend economic growth into the years ahead at a high and sustainable rate and in ways that strengthen and reinforce our political and economic freedoms. Other chapters of the Report summarize the leading economic developments in 1959; describe the policies that were pursued in the past year to promote higher employment, production, and purchasing power; and set forth the Administration's 1960 program for extending the Nation's economic progress.

RECORD OF GROWTH IN THE AMERICAN ECONOMY

A few facts illustrate the ability of the American economy to continue raising what has long been the highest living scale in the world, while carrying a heavy defense burden and meeting broad international obligations.

In the 14 years since the passage of the Employment Act, employment has advanced, on the average, by nearly 800,000 a year. In real terms, the Nation's output of goods and services, as well as its personal income, has increased by more than 50 percent, or at a rate of 3.2 percent per year; and the output of the private sector of the economy has advanced at a slightly higher rate, 3.5 percent. For industrial production, the rate of increase has been 4.5 percent. The annual increase of 3.2 percent in total national output, which corresponds to a doubling every 22 years, is roughly equivalent to the long-term average reached in our previous history. Thus, the American economy has sustained its long-term record of growth, despite the high level of industrial development already achieved and despite temporary setbacks.

The increase in national output has made possible very great gains in the well-being of American families. Evidence of the advances made in this respect since passage of the Employment Act is presented in the Appendix

on "Diffusion of Well-Being" included in this Report. Real income per capita has increased by nearly 20 percent since 1946, and the increase per family has been 16 percent. As incomes have risen and as paid vacations have become longer and more common, leisure time has increased and recreational activities have become more widely enjoyed. The shortage of housing so evident immediately after World War II has been virtually eliminated. Since 1946, the housing supply has been increased by the construction of 15 million private nonfarm dwelling units, and there have been marked improvements in the quality of housing. At the same time, there has been a general increase in home ownership; some 60 percent of all nonfarm dwelling units are owned by the occupant families.

Attention to such material advances should not obscure the accompanying gains made with respect to other components of our well-being, some of which are less tangible. In health, there has been remarkable progress in the reduction of infant and maternal mortality, in the prevention, mitigation, and treatment of many diseases, in restoring the physically handicapped, in making available a better balanced diet at lower cost, and in creating other conditions conducive to longer years of life and greater efficiency. Health services are more and more widely available, and the great majority of Americans now have some protection under voluntary plans of hospital, surgical, and medical insurance.

Notable gains have been made in education and other cultural areas. School enrollment has risen in the last 12 years from 50 percent to about 65 percent of all persons in the age group of 5 to 29 years. From 1946 to 1959, the number of Bachelor's and first professional degrees conferred annually almost trebled, and the number of Master's and second professional degrees showed a still greater relative increase. To some extent, these advances represent the resumption of academic work interrupted by war, but the large gains made in the past few years indicate a rising trend that will accelerate in the years ahead. The number of earned Doctorates conferred rose sharply after the war, reaching in 1954 a new high, which has been maintained for several years. In the past decade, more than 83,000 Doctorates have been conferred, compared with some 27,000 during the 1930's and about 31,000 in the 1940's. Marked increases are expected also in the next several years. Another source of satisfaction is the record of scientific achievement. Since 1946, close to half of the Nobel awards for contributions to medicine, chemistry, and physics have been bestowed on American citizens.

The economic security of American families has been advanced significantly in the years since World War II. About 58 million persons—87 percent of all those in paid employment—are now covered by the Federal Government's old-age, survivors, and disability insurance system and related programs. More than 19 million persons are covered by privately financed pension plans. The Federal-State Unemployment Compensation System, which has proved its worth as a defense against loss of income during periods

of economic adversity, now provides protection for nearly 85 percent of all persons on nonfarm payrolls.

But the progress made under Government programs should not divert attention from the extensive provisions made independently by Americans for personal and family security. The number of life insurance policyholders, for example, has increased by about 60 percent since 1946; about 115 million persons were insured through legal reserve companies in 1959. The volume of time and savings deposits of individuals has increased by nearly \$35 billion, or more than 50 percent, since 1952. Share accounts in savings and loan associations have also risen by \$35 billion in this period—by nearly 200 percent.

And it is not too much to say that we have made good progress in moderating fluctuations in our economy. Although economic recessions, however minor, must remain a matter of concern to all Americans, the relative mildness and short duration of the three since the war have to be reckoned as a major factor in the strengthening of personal security.

NEW CHALLENGES AND OPPORTUNITIES

These improvements in the well-being of the American people offer convincing testimony of the productiveness of our free economy and the wide distribution of its annual yield. Continuing efforts are needed, however, to assure that advances are extended into the future at high rates.

One important line of progress to this end is the lessening of fluctuations in our economic development. Although the severity and duration of economic recessions have been limited in the postwar period, we must strive for a steadier rate of growth. This would not only reduce the personal hardships incident to economic setbacks but could also yield a higher annual rate of growth over a period of years.

In addition to lessening cyclical declines in employment, efforts should be made to improve the skills of our labor force and to make consistently fuller use of economic resources in all parts of the Nation. In general, unemployment rates in the United States have not been high for an economy which allows and experiences considerable labor mobility and job change, but they can and should be lower. Since unemployment is typically highest among those persons with inadequate training in the skills demanded by a dynamic industrial economy, better schooling and improved counseling services are clearly desirable. Also, while advances in economic activity and in well-being have been widely shared, constructive measures are needed to draw more fully into the mainstream of economic growth those communities and areas that experience persistently high unemployment.

In the decade we have just entered, a new factor—the expected sharp increase in the labor force—will require, and will help to achieve, more rapid economic growth. Over the past decade, our labor force increased at an average rate of about 825,000 a year. But the sharp rise in births

in the years since the war means that the annual increase in the number of persons available for employment will rise rapidly in the next ten years. Projections suggest something close to a doubling of this annual increment to the labor force by the end of the 1960's. The rapid expansion of our manpower will offer a unique opportunity for increasing our rate of output. By the same token, our economy will have to supply additional employment openings, by the end of the decade, at a rate twice that required in the 1950's.

The coming of age of this large group of young people will also require great increases in the output of housing and of consumer goods and services of all kinds, as new families are formed and new households are established in increasing numbers. Meeting these output and employment demands in the next decade will require a vast increase in savings and invested capital to supply needed tools and facilities. It will require continuing extensive private and public support of basic and applied research. It also will require greater efforts, primarily by local and State governments and private groups, in education and training.

Success in providing the additional new job opportunities would, of itself, accelerate our rate of economic growth. By the end of the 1960's, this acceleration and an improvement in productivity similar to the average for recent decades would yield an annual national output close to half again what it is today. And this performance could be bettered if we succeed in creating conditions that favor a higher rate of increase in productivity.

SHARED RESPONSIBILITY FOR ECONOMIC GROWTH AND IMPROVEMENT

The economic tasks of the next decade pose impressive challenges, but there is every reason to believe that they will be met, just as similar challenges have been met in the past. We should regard these challenges as opportunities, and recognize that we have great advantages as we go about meeting them. A large productive base already exists in the American economy, and our competitive enterprise system is well able to expand this base as needs increase. The ideals, freedoms, incentives, and rewards of our enterprise society are powerful forces in directing efforts and material resources to the meeting of new tests. And our traditional and proven system of sharing responsibility for economic growth and improvement between the private and public spheres of our society, and among the several levels of government, provides a means for guiding those efforts along fruitful lines.

The premises of this system of shared responsibility, recognized by the Congress in Section 2 of the Employment Act, deserve renewed emphasis as we prepare for the challenges and opportunities of the new decade. In our society, the maintenance of a climate conducive to orderly and vigorous economic growth is not exclusively the function of government. Indeed, excessive reliance on governmental machinery may not only frustrate the

quest for steady growth and reasonably stable prices, but may also have undesirable consequences for our economic system and our freedoms. The more effective the job done by individuals and private groups and by government at the State and community levels, the less the danger of Federal encroachment in areas that have traditionally been the province of private enterprise and of local government. Our various levels of government and private individuals and groups have distinctive roles in our free society's system of shared responsibility. At this point it is well to recall these roles, with particular reference to the problem of maintaining a high rate of economic growth.

Roles of Government

In a free society, government makes its major contribution to economic growth by fostering conditions that encourage and reinforce the efforts of individuals and private groups to improve their circumstances. This includes the preservation and enhancement of competition, the maintenance of a stable currency, the moderation of fluctuations in employment and output, participation in the development of human and natural resources, the enhancement of personal security, provision of a sound national defense, and the maintenance of mutually advantageous ties with other countries.

Responsibility for many of these roles is divided among the various levels of government, but none can be carried out adequately without the initiative and cooperation of individuals and private groups. This network of relationships is the product of our history. It embodies the American concept of government as the responsive instrument of the people.

The Federal Government's contribution toward preserving and strengthening the institutions of our competitive enterprise system, to which the Employment Act properly directs attention, is of special importance. Open markets perform the essential task of channeling economic resources into the uses that businessmen and consumers deem most satisfactory; in this way, they contribute to the productiveness of our economy and to the quality of our living. They should remain free of unwarranted restraints. Leaders of business, labor, farming, and the professions, as well as the various levels of government, have responsibilities for maintaining the openness and resiliency of our economic system. The competitive nature of this system is closely linked to our ideals of freedom and individual initiative, which have far more than economic significance. A free society, free political institutions, and a free economy are interdependent and reinforce each other.

As indicated earlier, Federal action to help smooth out economic fluctuations affords another opportunity to promote growth. Deep and prolonged declines of production, involving substantial reductions in investment, not only interrupt current advance but impede future growth. It is widely acknowledged that to avoid such declines Government should take measures, appropriately designed and timed, to counter recessionary tendencies. It

is also important that appropriate measures should be taken to restrain surges in economic activity that might lead to drastic corrections.

Governmental decisions regarding the volume and character of public expenditures have powerful effects on the health of the economy and on its prospects for vigorous and sustainable growth. Especially in a briskly growing economy—the kind to be expected in the current decade—demands on economic resources are heavy and rising, and public outlays are made at the expense of private spending. The public use of funds, whether to continue established programs or to initiate new ones, must be justified on the ground that it makes a larger contribution to well-being and economic strength than could be made by their private use. The entire range of Federal spending must be continuously under review, with this criterion in mind. Many public programs make important contributions to growth, both directly by increasing the productive capacity of individuals and business firms and indirectly by facilitating and encouraging the greater private investment that enlarges our capacity for future production. It must always be borne in mind, however, that we grow only by investing more and producing more, not simply by spending more.

The way taxes are levied also affects the advance of productivity and output. We must remain alert to the possibility of making the tax system a more effective instrument for promoting economic growth. Taxes affect the ability of individuals and corporations to save. Likewise, their impact on the risk and return of investment influences the willingness to make productive use of savings. Our tax system should give encouragement to productive effort and should facilitate the mobility and efficient use of capital. We should continue to review our tax system from these standpoints, as well as from the standpoint of equity.

The Federal Government can make a basic contribution to an environment favorable to economic growth through a constructive, forward-looking management of its finances. To meet this vital responsibility in fiscal affairs, while performing its functions adequately, Government must give clear evidence, in actual results, of its ability and determination to control its expenditures. When the Nation is prosperous, as it is today, with production, employment, and incomes rising, the most appropriate fiscal policy is one that provides a sizable excess of Federal revenues over Federal expenditures. In the economic circumstances now prevailing and expected in the near future, a budgetary surplus used to retire debt would be a powerful aid in helping to restrain inflationary pressures and to promote sound growth. The added savings which it would supply to the economy would help keep interest rates lower than otherwise, and facilitate private investment activity and the financing of public projects by State and local governments. The monetary authorities would have a freer hand in pursuing policies aimed at promoting steady, inflation-free growth. And such a fiscal policy would be a potent instrument for strengthening confidence in the dollar at home and abroad. Indeed, a sizable budget surplus

at this time, used to retire Federal debt, would effectively implement the objectives proclaimed in the Employment Act.

Roles of Individuals and Private Groups

Since the vast majority of economic decisions in a free society are made by private individuals and groups, the rate at which national output grows and the character of that output are determined chiefly by private attitudes and actions. The expenditures of consumers command about two-thirds of the Nation's total product, and private investment expenditures command another one-eighth, or more. Individuals and business concerns supply the bulk of the Nation's savings, and the major responsibility for directing these savings into private and public investment rests with private institutions. Finally, as citizens of a democracy, individuals determine directly or through chosen representatives what they want done through government, and at what cost. Obviously, the performance of our free economy depends largely on how individuals and private groups fulfill their many critical roles.

In their key role as consumers, individuals can contribute to the Nation's economic strength by spending wisely, just as government, acting as their agent, can promote growth by prudence in its spending. By the use to which they put their income they determine in large measure how economic resources are allocated. And in buying carefully for price and quality, they exert a restraining influence on the cost of living.

Individuals and corporate groups, in their roles as business leaders, can help strengthen the economy by the use they make of the resources under their control. They may be able to speed the increase in productivity in the private sector through allocating a greater share of these resources to investment and research and through pricing policies that favor the expansion of markets. Also, they can speed growth by upgrading worker skills, by improving the skills of management, and by eliminating wasteful practices.

Equally, leaders of labor have an opportunity as well as a responsibility to help realize more fully the Nation's economic potential. They can contribute significantly in this direction by fostering arrangements favorable to higher labor productivity.

And leaders of business and labor have a joint responsibility for facilitating economic growth through the conduct and results of collective bargaining. This responsibility is especially great in industries that are basic to the Nation's defenses and economic health. Events of the past year demonstrate the damage that can be done when established methods for settling industrial disputes break down. An obvious way to achieve our economic potential more fully is to improve on this aspect of the past year's record. Labor-management disputes in basic industries should be settled promptly, preferably without recourse to strikes, and certainly without extended interruptions of production that cause widespread dislocation and unemployment.

ment and threaten to paralyze our entire economy. They should be settled also on terms that are fair to the public at large as well as to the parties directly involved.

Labor-management negotiations in all industries offer opportunities to help promote sound growth by avoiding settlements that contribute to inflation. Settlements should not be such as to cause the national average of wage rate increases to exceed sustainable rates of improvement in national productivity. A national wage pattern that fails to meet this criterion would put an upward pressure on the price level. Hourly rates of pay and related labor benefits can, of course, be increased without jeopardizing price stability. Indeed, such increases are the major means in our free economy by which labor shares in the fruits of industrial progress. But improvements in compensation rates must, on the average, remain within the limits of general productivity gains if reasonable stability of prices is to be achieved and maintained. Furthermore, price reductions warranted by especially rapid productivity gains must be a normal and frequent feature of our economy. Without such reductions we shall not be able to keep the price level as a whole from advancing.

A well-informed and vigilant public opinion is essential in our free society for helping achieve the conditions necessary for price stability and vigorous economic growth. Such public opinion can be an effective safeguard against attempts arbitrarily to establish prices or wages at levels that are inconsistent with the general welfare. Informed public opinion is also necessary to support the laws and regulations that provide the framework for the conduct of our economic affairs.

However, we must go further in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can successfully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.

Our system of free institutions and shared responsibility has served us well in achieving economic growth and improvement. From our past experience, we are confident that our changing and increasing needs in the future can be met within this flexible system, which gains strength from the incentive it provides for individuals, from the scope it affords for individual initiative and action, and from the assurance it gives that government remains responsive to the will of the people.

Chapter 2

Economic Developments in 1959

THE ECONOMIC RECOVERY in the United States that started early in 1958 carried production and incomes to new high levels by the first quarter of 1959. The Nation's output, in terms of the physical volume of goods and services, surpassed its previous peak. The flow of income payments also exceeded the previous record, and civilian employment, though still below the high reached in the second quarter of 1957, was 1.2 million greater than in mid-1958, after seasonal adjustments.

These advances were extended into 1959, though economic activity was sharply affected by the 116-day steel strike which began on July 15. Developments in the steel industry had first an expansive, and then an increasingly contractive, effect. Anticipatory purchases of steel and products of steel quickened the advance in the Nation's output in the first half of the year, but led to a drop in gross national product in the third quarter, as about 85 percent of steel capacity was idled and the output of steel-using products had to be sustained in the main out of previously produced steel supplies. Still, by the end of the year, the Nation's aggregate output amounted to \$482 billion, on an annual rate basis; employment had risen to 66.2 million (seasonally adjusted), the highest in the Nation's history; and personal income was being received at the rate of \$391 billion a year, 5 percent (adjusted for price changes) higher than in the last month of 1958.

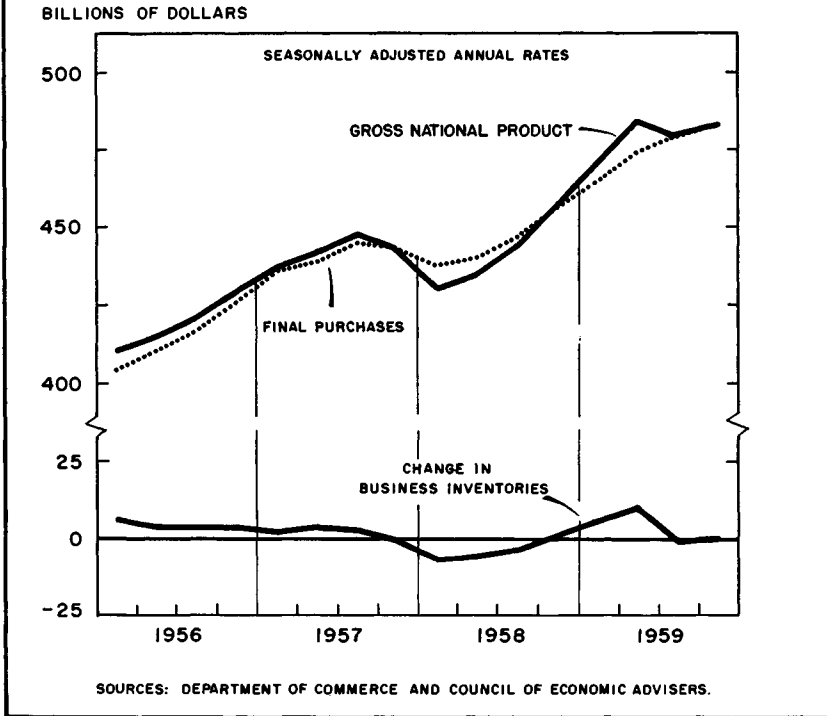
EXPANSION OF OUTPUT

The rapid rise in general economic activity already in progress as 1959 began raised output to \$484.5 billion in the second quarter of the year (Chart 1). This exceptionally rapid expansion reflected not only the abnormal demand for inventories induced by the expectation of a steel strike, but also a substantial, continuing increase in the final demand for goods and services. To a certain extent, these two factors reinforced one another, but increasing outlays by business concerns on plant and equipment, rising expenditures on residential construction, and increased purchases of durable goods by consumers had significant independent effects in stimulating the expansion of production, employment, and income.

CHART 1

Gross National Product

Gross national product in 1959 reflected continued growth in final purchases and marked shifts in inventory investment.



The shift between early 1958 and mid-1959 in the inventory policies of business had a marked economic effect. Inventory accumulation began in the latter part of 1958, following a full year of liquidation. It quickened during the first half of 1959, as business firms replenished their stocks of materials and finished goods to meet rising operating needs; and it became especially rapid in the second quarter of the year as businesses sought to assure continuance of their operations in the event of an interruption of steel production. Approximately one-third of the inventory accumulation in the second quarter was attributable to increased holdings of steel mill products. And inventory accumulation alone was equal to one-third of the rise in gross national product from the 1958 recession low to the 1959 high.

The advance in final purchases of goods and services which began in the second quarter of 1958 also reached a peak rate in the second quarter

of 1959. Virtually all the main categories of final purchases increased. Improved investment opportunities, supported by higher business earnings and retained income, provided a basis for increased business outlays on plant and equipment. These rose by about 10 percent, from a seasonally adjusted annual rate of \$33.4 billion in the fourth quarter of 1958 to \$36.6 billion in the second quarter of 1959 (Table D-8). Within nonfarm business investment outlays, expenditures on equipment moved forward somewhat more swiftly, rising approximately 14 percent from the end of 1958 to mid-1959. But nonresidential construction grew at a slower rate, as substantial expenditures for public utility and commercial projects were partially offset by a decline in factory building. Residential construction, on the other hand, rose rapidly in the early months of 1959. The public sector of the economy provided a moderately expansive impetus to aggregate output. State and local purchases of goods and services continued to rise, while those of the Federal Government remained stable. Net exports were the single contractive factor among the major components of national output, declining from \$0.2 billion at the close of 1958 to minus \$1.8 billion (on a national accounts basis) in the second quarter of 1959.

The underlying strength in these categories of final purchases of goods and services helped bring about a rise in employment and income, and consumers responded by expanding their outlays substantially. A further rise of income incident to the production of goods to meet abnormal inventory needs, particularly in the second quarter, also helped to swell consumer incomes and spending. And consumer confidence, reflected in high personal borrowings, brought particular strength to purchases of durable goods.

Economic developments in the second half of the year were also greatly affected by the inventory factor. In this case, however, it exerted, on balance, a pronounced contractive influence. Largely reflecting reductions of holdings by manufacturers and retail dealers affected by the steel strike, inventories—which had been accumulated at an annual rate of \$10.4 billion in the second quarter—were reduced by \$1 billion in the third quarter. This reduction was the dominant economic force in that quarter. Although making possible a continued though less pronounced increase in final purchases, the drawing down of inventories incident to the stoppage in steel production resulted in a rather sharp drop—\$6 billion—in gross national product. During the fourth quarter of the year, deficiencies and imbalances of steel inventories moderated the growth of final purchases, despite the resumption of steel production in November. As a result, the increase in gross national product (GNP) was limited to \$3.4 billion, and most of the recovery in economic activity expected after the strike was postponed beyond the end of the year. Nevertheless, GNP in the fourth quarter was nearly \$25 billion (annual rate) above the level in the fourth quarter of 1958.

Divergent movements in the second half of the year in the major components of national output reflected, in part, the impact of steel shortages. Sales of consumer durable goods, which had been rising rapidly, fell as demands could not be fully met. New construction expenditures, which had been very high in early 1959, decreased noticeably, though part of this decline may have reflected the increased competition for funds arising in other sectors of the economy. On the other hand, purchases of consumer nondurable goods and services and of producer durable equipment, and purchases by State and local governments continued to advance in the second half of the year. And net exports of goods and services, which had been a contractive influence before midyear, became moderately expansive.

EMPLOYMENT AND INCOME

The gains in employment and earnings that followed the upturn of the economy in 1958 were extended at a rapid rate into 1959. By January, the average length of the manufacturing workweek had increased to 40.1 hours (seasonally adjusted), from a recession low of 38.7 hours. Total civilian employment had risen by more than 1 million (seasonally adjusted) from its cyclical low, and unemployment had been reduced from the recession high of 7½ percent of the civilian labor force to 6 percent.

As the year advanced, economic expansion brought about increasingly heavy demands for labor. The average length of the workweek in manufacturing industries advanced to 40.7 hours in April, the highest since April 1956, and the average amount of overtime for production workers increased rapidly, to almost 3 hours a week in June. Longer workweeks and increased overtime were the rule also in most nonmanufacturing industries.

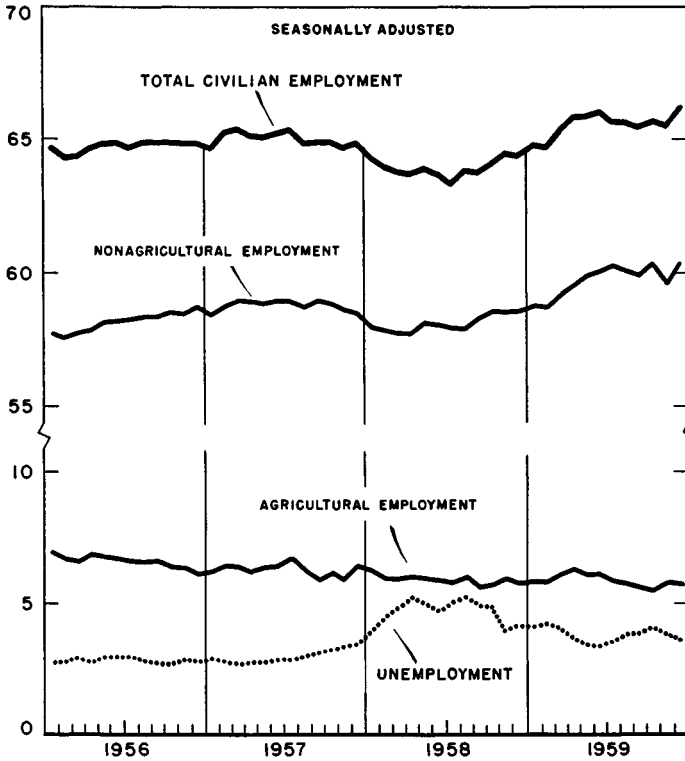
Unemployment changed very little during the early months of 1959, because the expansion in employment was nearly matched by the growth of the labor force. But in the early spring, as production reached record levels, the number of employed persons rose swiftly, exceeding the growth in the labor force, and unemployment declined. Total nonfarm employment expanded by nearly 1.3 million (seasonally adjusted) in the four months from February to June 1959, and unemployment was reduced by 750,000. By midyear, unemployment had fallen to about 5 percent of the labor force; long-term unemployment—the number of individuals seeking work for 15 weeks or more—was 1 million below its recession high of nearly 2 million; unemployment among men 25 years of age and over was sharply below that in 1958; and the unemployment rate for family men in June 1959 was 2.7 percent, likewise far below its recession high. Nevertheless, these unemployment rates were above those prevailing prior to the 1957–58 recession, and unemployment remained comparatively high, especially for persons lacking work experience, for mining employees, and for nonwhite persons. However, total unemployment was being reduced at a rapid rate until the trend was reversed in July by the beginning of the steel strike (Chart 2).

CHART 2

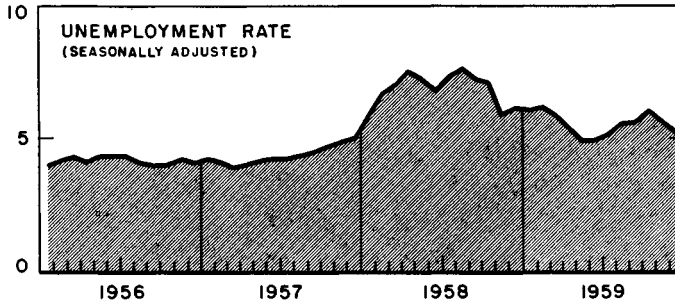
Employment and Unemployment

Employment increased and unemployment fell until July 1959. These trends were interrupted by the steel strike but resumed after its end.

MILLIONS OF PERSONS *



PERCENT OF CIVILIAN LABOR FORCE



* 14 YEARS OF AGE AND OVER.

SOURCE: DEPARTMENT OF LABOR.

After some 500,000 employees in the steel industry went on strike on July 15, nearly 100,000 other persons were soon laid off in related industries, especially in mining and rail transportation. Even though substantial inventories of steel had been accumulated by many firms, stocks were being depleted rapidly by mid-October and serious imbalances were making themselves felt. As a result, layoffs became increasingly heavy. By the time steel production was resumed on November 7, under a Federal court injunction, employment in steel-related industries had declined by more than 500,000, exclusive of the number on strike. In most other industries, employment ceased to advance during this period, and in October the rate of unemployment increased to 6.0 percent of the civilian labor force.

The resumption of steel production brought an increase in employment by the end of the year, and unemployment was again reduced. Although the replenishment of working stocks of steel could not be accomplished immediately, total employment reached 66.2 million (seasonally adjusted) in December, slightly above the record of 66.0 million that had been attained in June. Unemployment in December was 3.6 million (seasonally adjusted), or 5.2 percent of the labor force.

The employment situation in areas of heavy labor surplus was improved significantly by the economic advance of 1959. Although in November 1959 there were 29 major continental labor markets where unemployment exceeded 6 percent of the labor force, the number of such areas was far below the peak of 86 reported in July and September of 1958. And by November 1959, unemployment had fallen below the 3 percent level in 27 major areas. Also, most labor market areas, regardless of their over-all unemployment situation, experienced shortages in 1959 of certain types of workers, notably professional, technical, clerical, and skilled.

The improving employment situation was reflected in substantial gains in personal income. In the early months of 1959, higher hourly wage rates supplemented the effects of longer workweeks and more extensive overtime employment on average weekly earnings (Chart 3). Wage rates in manufacturing industries advanced in the first six months of the year by about 2 percent, on the average. On an annual rate basis, this gain was about the same as the increases in 1957 and 1958. Average weekly earnings for workers in these industries were 4.5 percent higher in the first six months of 1959 than in the last six months of 1958. In nonmanufacturing industries, also, earnings of workers increased. Despite the fact that the advance of weekly earnings and employment was interrupted by the strike in the second half of the year, wage and salary payments in the fourth quarter exceeded payments a year earlier by \$16.4 billion, or 6.7 percent.

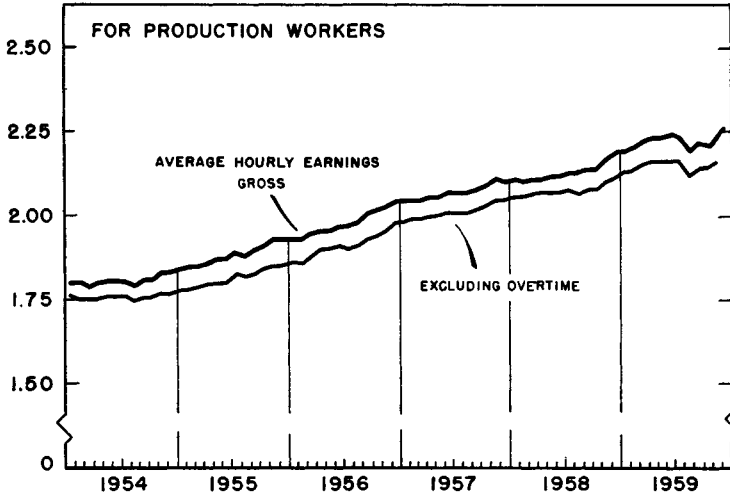
Other forms of personal income, not as large in dollar terms as wages and salaries—personal interest, dividends, incomes of nonfarm proprietors (including self-employed professional persons), and transfer payments—also rose above their levels at the end of 1958. Rental income increased slightly, while the income of farm proprietors declined. The aggregate of

CHART 3

Hours and Earnings in Manufacturing

Hourly earnings were much higher in 1959 than in 1958, as wage rates continued to rise and overtime became more common.

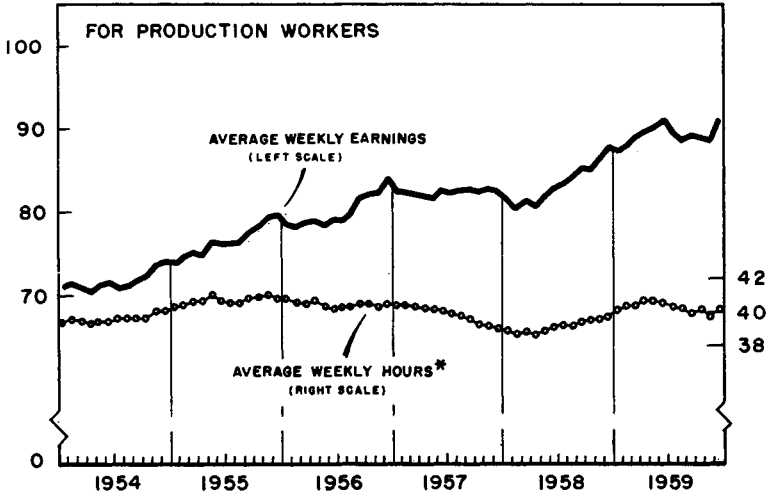
DOLLARS



Weekly earnings increased rapidly until the steel strike, reflecting longer workweeks and higher hourly earnings.

DOLLARS

HOURS



* SEASONALLY ADJUSTED.

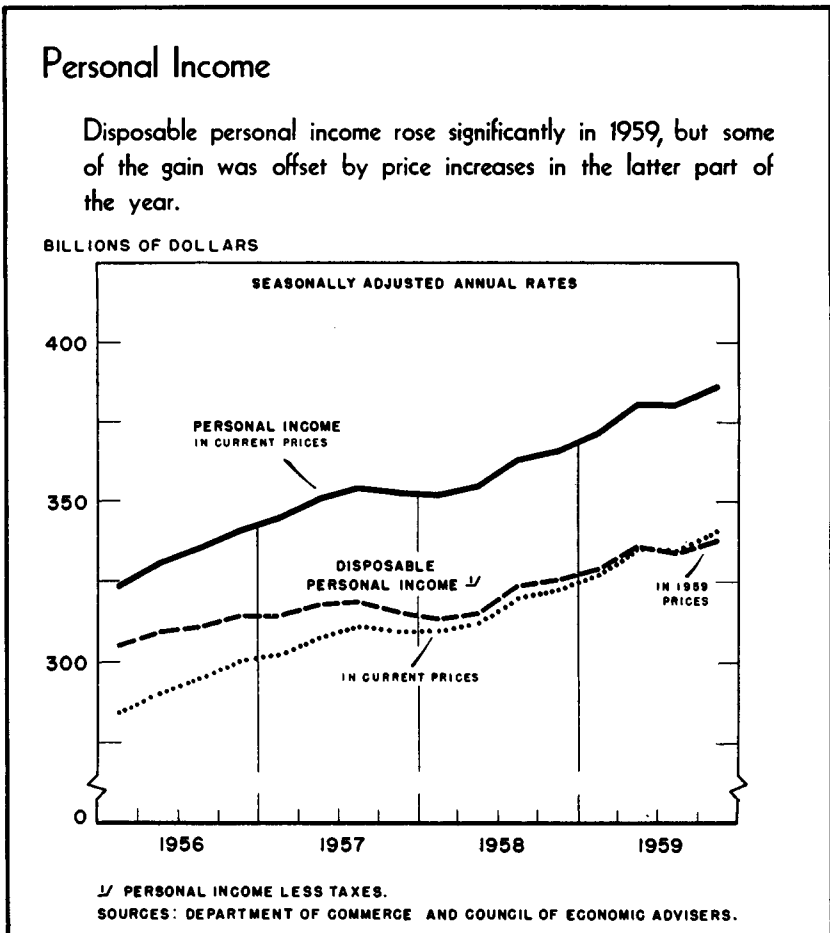
SOURCES: DEPARTMENT OF LABOR AND DEPARTMENT OF COMMERCE.

all these income payments—total personal income—rose by \$20.3 billion, or 5.5 percent, and the amount of income available for spending and saving after the payment of personal income taxes—disposable personal income—increased at the same rate.

Since prices were relatively stable in much of the first half of the year, the increases in disposable income were reflected almost entirely in increases in real income. In the next six months, however, part of the gain was offset by increases in prices. Over the year as a whole, per capita disposable income, in dollars of constant purchasing power, increased by 2.2 percent (Chart 4).

Personal savings, which had expanded earlier in the recovery period, leveled off in the first half of 1959 as consumer expenditures on goods and services rose by about as much as disposable income. In the final six months, as consumption continued to rise in the face of a much slower

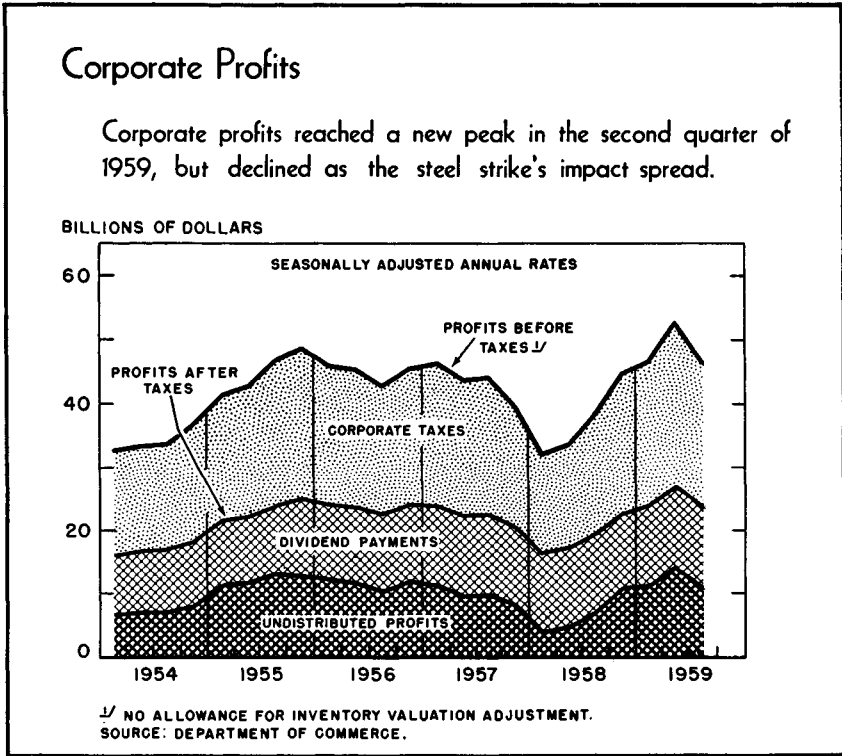
CHART 4



growth in personal incomes, the share of disposable income that was saved fell to about 6.7 percent, the lowest since early 1956. This decline was reflected both in a less rapid addition to most financial assets of individuals and in a more rapid expansion of personal borrowings.

Corporate profits, which are especially sensitive to fluctuations in business activity, expanded in 1959 in response to the increase in production and improvement in profit margins. By the second quarter, earnings (before taxes) reached a record figure of nearly \$53 billion—\$19 billion more than in the second quarter of 1958, when they had been severely depressed. Subsequently, they declined as the steel strike caused a curtailment of activity, and were about the same as in early 1959 (Chart 5).

CHART 5



Dividends did not match the rapid advance of profits after taxes for the year ended in mid-1959; accordingly, retained earnings recovered sharply. Together with the continued growth in funds generated through depreciation allowances and rapidly rising tax accruals, these retained earnings made it possible for corporations to acquire a substantial volume of United States Government securities in the first half of 1959, while at the same time increasing their outlays for inventory and for plant and equipment.

FINANCIAL DEVELOPMENTS

The impact of rising economic activity was clearly evident in credit and capital markets in 1959. Inventory accumulation in the early part of the year, the resurgence in consumer spending on durable goods, and a high level of construction activity combined to produce a heavy demand for commercial bank credit. Reflecting these demands, bank loans expanded almost \$12 billion, about the same as the record increase in 1955. However, Federal Reserve policy made possible only a small expansion in total bank assets, and banks financed about \$8 billion of their loan expansion through sales of United States Government securities. The financial markets were under considerable pressure in absorbing these security sales, since they were also financing the Treasury deficit and meeting substantial demands for funds from mortgage borrowers, State and local authorities, and corporations; and interest rates, particularly in the short-term and medium-term range, advanced sharply.

The distribution of the increase in bank credit among the major users largely reflected the character of the year's advance in economic activity (Table 1). The growth in both consumer loans and real estate loans of

TABLE 1.—*Net changes in commercial bank holdings of loans and investments, 1954-59*

[Billions of dollars]

Loans and investments	1954	1955	1956	1957	1958	1959 ¹
Loans (excluding interbank) and investments ²	10.2	4.6	4.2	4.9	15.1	3.4
Loans (excluding interbank) ²	2.9	11.6	7.6	3.5	4.3	11.7
Business.....	-3	6.4	5.5	1.8	-1	5.3
Real estate.....	1.7	2.4	1.7	.6	2.1	2.5
Consumer.....	(3)	2.3	1.4	1.2	.2	2.5
Security.....	.9	.6	-.8	-1	.4	(3)
Agricultural.....	.2	-.7	-.3	-1	.9	-.2
All other.....	.6	.9	.4	.3	1.0	1.4
Investments.....	7.2	-7.0	-3.5	1.3	10.8	-8.4
U. S. Government securities.....	5.6	-7.4	-3.0	-.3	8.1	-8.1
Other securities.....	1.6	.4	-.4	1.7	2.6	-.3

¹ Preliminary estimates by Council of Economic Advisers; excludes Alaska and Hawaii and other bank structure changes.

² Total loans are net of, and individual loans are gross of, valuation reserves.

³ Less than \$50 million.

NOTE.—See Table D-41 for data including interbank loans. Detail will not necessarily add to totals because of rounding.

Source: Board of Governors of the Federal Reserve System (except as noted).

commercial banks appear to have exceeded the high rates of 1955. The expansion of business loans up to the middle of the year was comparable to that of 1955, but the liquidation of inventories after midyear reduced this use of bank funds considerably below the amounts extended in 1955. Nevertheless, the business lending activity of banks was markedly greater than in 1958, as most major groups of commercial and industrial businesses employed more bank credit.

Not only was consumer lending by banks at a record rate, but so was the over-all increase in consumer credit outstanding (Chart 6). All major categories of instalment credit other than that extended for the purchase of automobiles rose more than in 1955. Contrary to the developments in that earlier year, however, there appears to have been no appreciable liberalization in 1959 of the maximum terms on which instalment credit was made available to consumers.

Long-term capital markets were subject to divergent influences but, on balance, experienced larger demands. Corporate security offerings for new money were lower than in 1958 by about \$1.5 billion, or 15 percent, as a result of the sharp increase in corporate retentions of income and the greater reliance on bank borrowing. The latter reflected the predominantly short-term nature of business financing requirements in this period and, possibly, the high level of long-term interest rates prevailing. However, the reduction in corporate offerings was more than offset by the flow of credit into home building. The amount of nonfarm residential mortgage credit in use increased by a record \$15 billion, compared with an increase of \$12 billion in 1958. State and local security issues exceeded those in any previous year, as new authorizations of State and local securities continued to build up a large backlog of issues.

The credit markets were also required to supply funds associated with an increase of \$7.9 billion in United States Government debt and to absorb outside of the banking system the \$8 billion reduction, referred to above, in bank holdings of United States securities. Most of the new issues of Federal securities were obligations of short- and intermediate-term maturity, because the 4¼ percent interest rate limitation effectively precluded flotations of longer-term United States Government securities after the early part of the year. Hence, the Federal Government was forced to do much of its needed financing in the same maturity range in which commercial banks were reducing their holdings of Government obligations.

Investment sources outside the commercial banking system absorbed the new offerings of Federal securities, as well as bank sales of short- and intermediate-term Federal obligations, but at a substantial increase in rates. Nonfinancial corporations expanded their holdings by \$5 billion (Table D-49), mostly in very short-term securities; foreign and international accounts, savings and loan associations, and individuals likewise added to their portfolios.

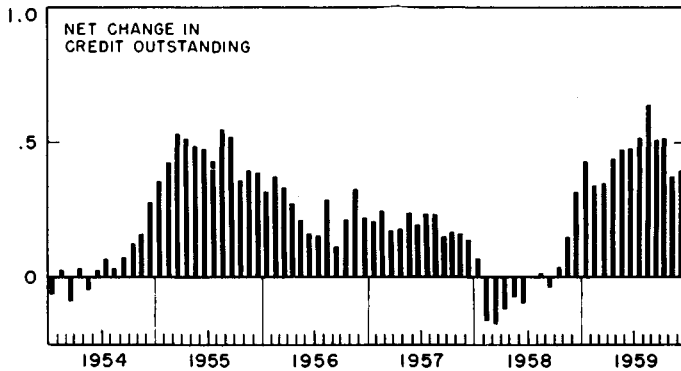
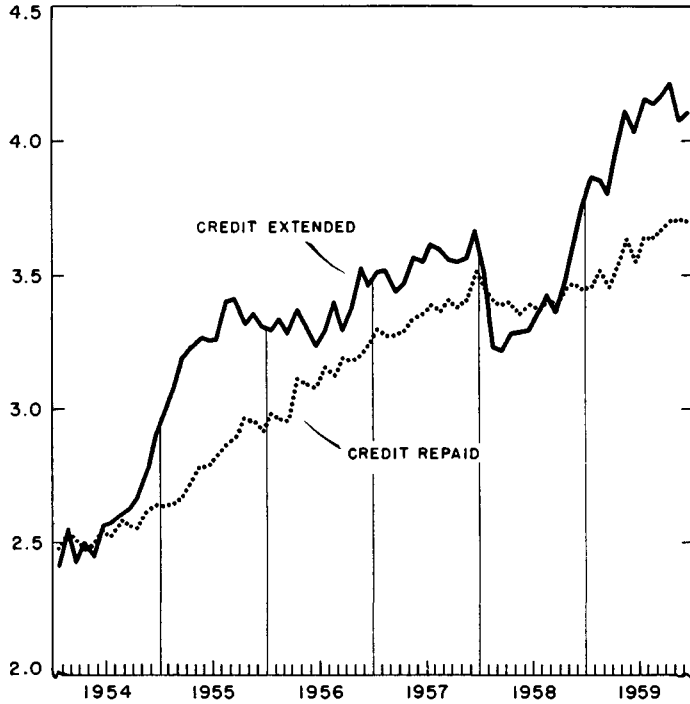
These developments in the banking system and in capital markets, jointly with the policies pursued by the monetary authorities, had significant effects on the financial position of the major lending institutions and of nonfinancial businesses and individuals. The liquidity position of commercial banks, as measured by the ratio of their holdings of United States securities to deposits, was at about its postwar low, and the cash and

CHART 6

Consumer Instalment Credit

The amount of consumer instalment credit outstanding rose substantially in 1959, as extensions increased much more rapidly than repayments.

BILLIONS OF DOLLARS (SEASONALLY ADJUSTED)



NOTE: SEE APPENDIX TABLES D-44 AND D-45.

SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

United States Government security holdings of insurance companies, mutual savings banks, and savings and loan associations declined relative to their respective liabilities.

For the economy as a whole, holdings of liquid assets increased only moderately, though there were significant differences among the components of the total. The money supply expanded by about 0.5 percent. Time deposits of commercial banks advanced by $3\frac{1}{2}$ percent and mutual savings bank deposits by 4 percent, rates of increase that were appreciably lower than in recent years. The volume of outstanding Series E and Series H savings bonds, including accrued interest, leveled off early in the year, and then declined; however, the decline was reversed after a new rate of $3\frac{3}{4}$ percent was announced for these bonds and the total at the end of the year was almost the same as at the beginning. Total savings bonds, which include other series not currently being sold, decreased by about \$3 billion during the year, though this decline partly reflected advance refunding into marketable securities. Savings and loan share accounts rose by 14 percent, about the same as in 1958. The decline in the rate of increase in savings-type liquid assets reflected the failure of personal savings to keep pace with disposable income, as well as a shift of the flow of savings into less liquid assets. On the other hand, the volume of marketable United States Government securities with maturities of less than one year increased by about \$7 billion, or 10 percent, contrasted with a small decline in 1958.

The advance in the cost of borrowing in 1959, though less steep than in the second half of 1958, continued through most of the year. The 13-week Treasury bill rate rose from 2.7 percent to more than 4.5 percent. The prime rate of commercial banks was raised in two stages, from 4 percent to 5. The average yield on outstanding long-term taxable Government bonds increased from about 3.8 percent to 4.4, while that on outstanding corporate Aaa bonds rose from 4.1 percent to 4.6. It is estimated that the yield on FHA-insured home mortgages purchased in the secondary market rose from around 5.6 percent to about 6.3.

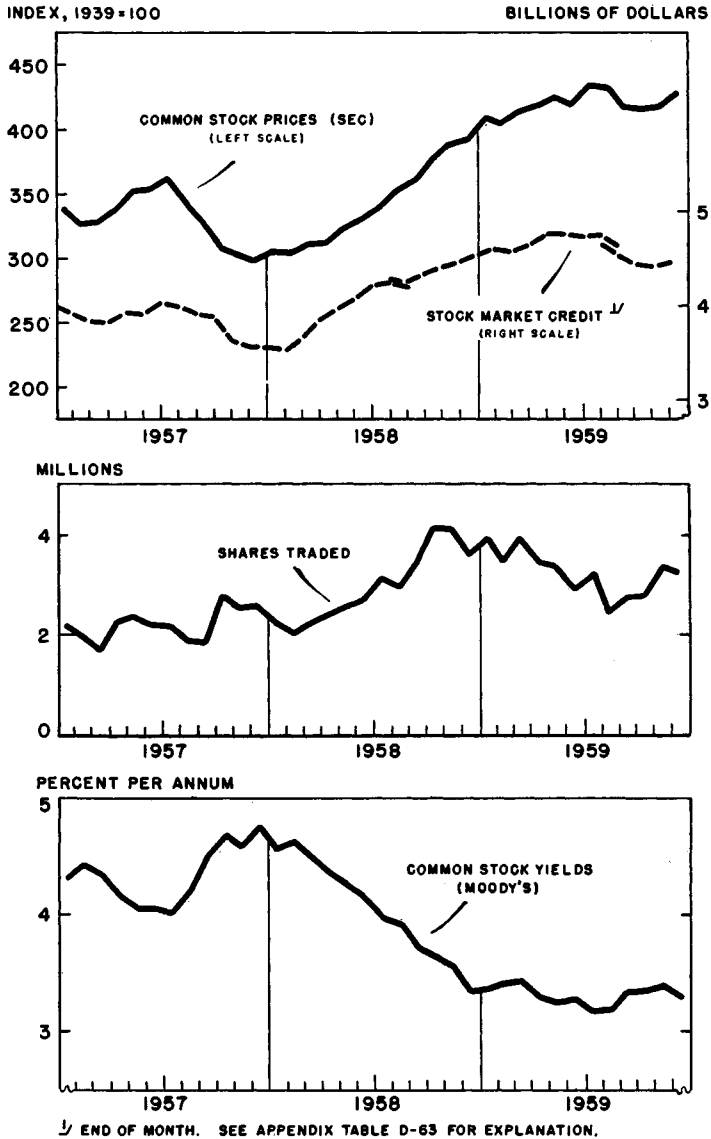
A significant development was the considerably more rapid advance in short- and intermediate-term interest rates than in long-term rates. The change in this relationship was such that short- and intermediate-term borrowing, on which the Federal Government was compelled to rely because of the $4\frac{1}{4}$ percent limitation on its new issues of longer-term securities, became considerably more expensive than long-term borrowing.

The exuberance that characterized the stock market in 1958 gave way to a more restrained tone in most of 1959. Stock prices advanced about 9 percent, and the amount of credit used in stock market transactions varied little during the year (Chart 7). Since dividends increased at about the same rate as stock prices, the average yield on common stocks remained at

CHART 7

Stock Prices and Yields

Stock prices rose more slowly in 1959 than in 1958. Yields fluctuated within a narrow range.



SOURCES: SECURITIES AND EXCHANGE COMMISSION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, NEW YORK STOCK EXCHANGE, AND MOODY'S INVESTORS SERVICE.

about the 3¼ percent level that prevailed in the last few months of 1958. The margin between the yield on outstanding long-term United States Government securities and the yield on common stocks continued to widen as interest rates in general advanced.

PRICES

The stability of the consumer price index that prevailed from the spring of 1958 through the first five months of 1959 was followed by an upward movement in the succeeding months. By November, the index was 1.5 percent higher than at the end of the previous year (Table 2).

TABLE 2.—Changes in consumer price index in 1959

Item	Relative importance December 1958 (percent) ¹	Percentage change		
		December 1958 to May 1959	May 1959 to November 1959	December 1958 to November 1959
All items.....	100.0	0.2	1.3	1.5
Commodities.....	64.8	-.3	1.1	.8
Food.....	28.7	-.8	.2	-.7
Food at home.....	23.9	-1.4	-.1	-1.5
Commodities less food.....	36.1	.1	1.7	1.8
Nondurable commodities.....	22.5	.4	2.0	2.4
Apparel.....	8.7	-.3	2.0	1.7
Footwear.....	1.5	2.4	4.3	6.7
Durable commodities.....	13.6	-.2	1.2	1.1
Cars, new.....	3.1	-3.3	3.9	.5
Cars, used.....	1.7	3.0	3.3	6.4
Durables less cars.....	8.8	.2	.0	.2
Appliances ²	3.1	.0	.4	.4
Services.....	34.4	1.2	1.7	2.9
Rent.....	6.2	.4	.9	1.3
All services less rent.....	28.2	1.3	1.8	3.1

¹ Weights do not add to 100 because the miscellaneous category, not actually priced but imputed, is omitted.

² Includes household appliances, radios, and television sets. Comparisons are for December 1958 to June 1959 and June to September 1959.

Source: Department of Labor.

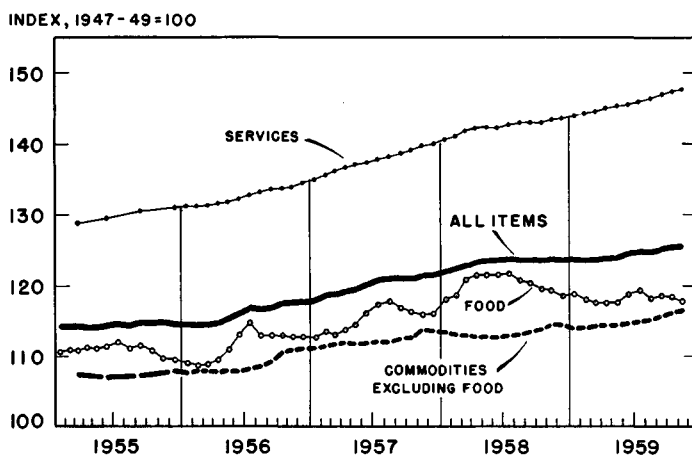
Continuing declines in food prices during the early months of the year offset increases in the prices of consumer services and small advances in the prices of nondurable goods other than food. Prices of consumer durable goods changed little in this period. After late spring, however, food prices fluctuated within a narrow range, primarily in response to seasonal and weather factors, whereas the prices of nondurable commodities (exclusive of food) and of consumer services rose at an increased rate. Accordingly, the over-all index began to rise and continued upward almost without interruption through the end of the year, though at a slower rate than in the corresponding months of 1956 and 1957 (Chart 8).

The index of wholesale prices changed very little in 1959, but divergent trends among its components (Table 3 and Chart 9) are significant for

CHART 8

Consumer Prices

The 1959 rise in the consumer price index was largely due to higher prices of services. Food prices fell but other commodity prices rose moderately.



SOURCE: DEPARTMENT OF LABOR.

the current movement of consumer goods prices and possibly also for future changes in the cost of living. Declines in wholesale prices of a number of farm products and processed foods brought reductions in retail prices of food during the year. Sizable reductions in pork prices reflected a cyclical expansion in hog production; and at the year-end, beef prices, which for most of 1959 had been higher than in 1958, also showed a moderate decline. A sharp increase in supplies exerted downward pressure on poultry and egg prices during the year. At the same time, higher wholesale prices of wool and hides and skins, and a pronounced rise in the prices of intermediate wool and leather products, were major factors in the 2 percent increase in the retail prices of apparel. In the latter part of the year, hide prices declined and a large cotton harvest, in combination with somewhat lower price supports, helped to moderate the rising trend in prices of textiles and apparel.

Prices of crude and semifinished materials and other items important in the manufacture of durable goods rose during 1959, though there was some diversity in their behavior. Prices of steel mill products, which had risen significantly in the second half of 1958, remained substantially unchanged in 1959, as did wholesale prices of consumer finished durable goods. Prices

TABLE 3.—Changes in wholesale price index in 1959

Item	Percentage change		
	December 1958 to June 1959	June 1959 to December 1959	December 1958 to December 1959
All commodities.....	0.4	-0.7	-0.3
Crude materials for further processing ¹	1.1	-4.8	-3.7
Crude foodstuffs and feedstuffs.....	.3	-7.4	-7.1
Crude nonfood materials, except fuel, for manufacturing.....	2.9	-1.7	1.2
Crude fuel.....	-2.6	4.6	1.9
Intermediate materials, supplies, and components ¹6	.2	.8
Intermediate materials for food manufacturing.....	-9	-2.5	-3.4
Intermediate materials for nondurable manufacturing (excluding food).....	2.2	.2	2.4
Intermediate materials for durable manufacturing.....	1.2	.2	1.4
Components for manufacturing.....	1.0	.3	1.3
Materials and components for construction.....	2.4	-4	2.0
Finished goods.....	.0	-3	-3
Consumer foods.....	-1.9	-1.9	-3.7
Consumer other nondurable goods.....	.5	.9	1.4
Consumer durable goods.....	.5	-4	.1
Producer finished goods.....	1.0	.1	1.1
Special group:			
Steel mill products.....	-1	.1	.0

¹ Total for this group includes some items not shown separately.

Source: Department of Labor.

of semifinished aluminum products were stable over most of this period, but price increases were announced at the end of the year. Primary nonferrous metals as a group, and the corresponding semimanufactured products, advanced in price, especially during the final months.

Materials of importance for construction became somewhat more expensive in 1959. By late spring, lumber prices were 12 percent higher than a year earlier, but they receded in the autumn, reflecting a lower rate of home building and seasonal factors in lumber production. Other building materials, particularly those used extensively in nonresidential construction, displayed mixed price trends.

The wholesale price index of producer finished goods, including electrical, metalworking, and general purpose machinery and equipment and related capital goods, advanced in 1959, extending a rise that had begun in September 1958. Including the 1959 increase, the index of these prices has risen almost 25 percent since August 1954. Such a development, unless offset by commensurate increases in operating efficiency, has important consequences for the prices of consumer goods since, in due course, the costs of capital equipment influence retail prices. Foreign trade of the United States could also be affected adversely by these price advances, since machinery accounts for about one-fourth of the country's total exports.

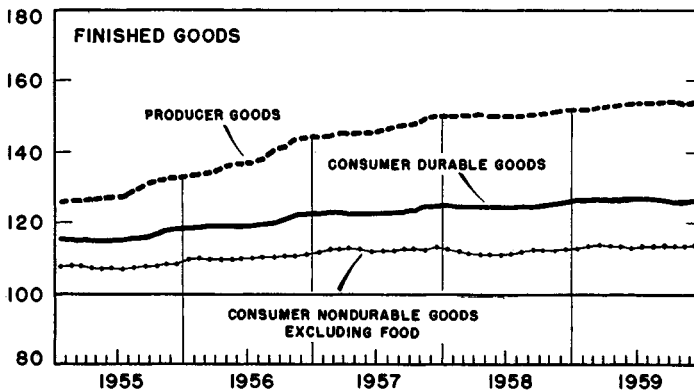
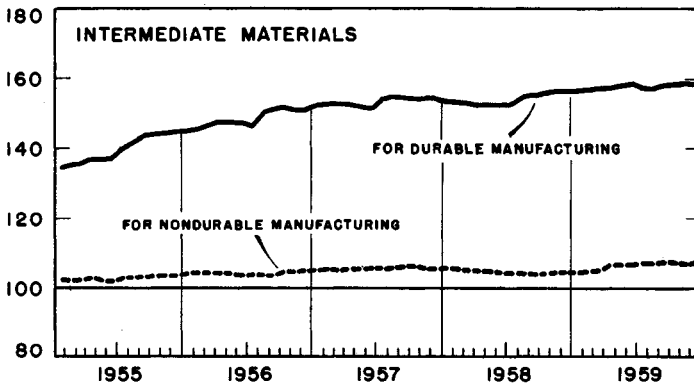
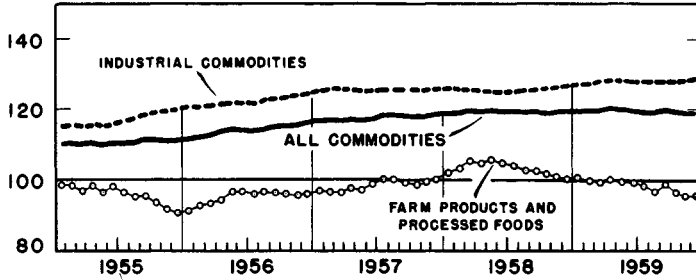
The fact that 1959 and 1955 marked somewhat similar phases in the business cycle suggests a comparison between price developments in these two years. In 1955, the consumer price index remained fairly stable, but substantial cost increases became noticeable as the year progressed. These

CHART 9

Wholesale Prices

The index of wholesale prices was stable in 1959. Declines in farm product prices offset some increases in industrial prices.

INDEX, 1947-49=100



SOURCE: DEPARTMENT OF LABOR.

made themselves felt to an extent through price rises at wholesale of such items as building materials, steel, nonferrous metals, and natural rubber, and foreshadowed the consumer price rise that began after the spring of 1956. In 1959, events followed a somewhat different course. Wholesale prices of intermediate materials for durable goods manufacturing advanced, as a group, but at a much slower rate than in 1955, especially after midyear. The corresponding group of materials for nondurable goods manufacturing (food excluded) showed somewhat larger wholesale price increases last year than in 1955; but, significantly, most of the increase in 1955 occurred after June, while in 1959 the index increased scarcely at all over the second half of the year as several important materials declined from earlier levels. On balance, rising costs of materials last year exerted less upward pressure on the prices of finished manufactured goods than they did in 1955, even if the influence of foods is excluded. This is reflected in the fact that the wholesale price index for industrial products rose only about 1 percent in 1959, compared with more than 4 percent in 1955. The contrasting behavior of consumer prices in these two periods is largely explained by the more rapid rise last year in the prices of consumer services and by the fact that prices of consumer durable goods declined in 1955 but were for the most part unchanged in 1959.

AGRICULTURE

Agricultural output in 1959, including a very large harvest of corn and a continued rise in the production of livestock, equaled the high 1958 volume and was 25 percent above the average output of 1947-49. Although per capita food consumption rose to near-record levels, the full volume of this output could not be absorbed by total domestic and export demands at prevailing prices, some of which are supported under provisions of law, and carryover stocks of several price-supported crops continued to increase. An especially large increase in carryover stocks of corn is in prospect from the 1959 harvest. On the other hand, wheat may account for only a small addition to stocks, and an increase in the carryover of cotton may be avoided in the new marketing year.

This imbalance between production and commercial demand was also reflected in the lower prices received by farmers in 1959, compared with 1958. Most of the reduction was in prices of livestock and livestock products; crop prices averaged nearly as high as in 1958. Declines in prices of hogs, poultry, and eggs were especially sharp. However, a substantial part of the decrease in livestock prices during 1959 was directly traceable to a cyclical increase in the production of beef cattle and hogs, which had been in short supply in 1958 and for which prices had been unusually high. Among crops, price reductions in 1959 were largely confined to wheat and fruit and oil-bearing crops.

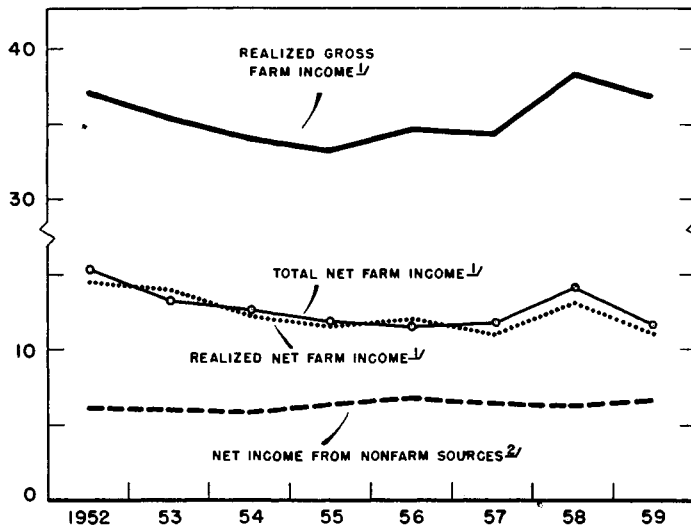
In 1959, the realized net income of farm operators from farming fell back from \$13.1 billion in 1958 to the 1957 level of \$11.0 billion (Chart 10).

CHART 10

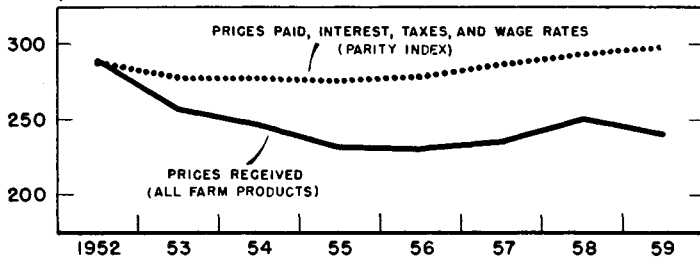
Indicators of Agricultural Conditions

Net farm income declined in 1959 to its 1957 level. Farm proprietors' equities continued to rise.

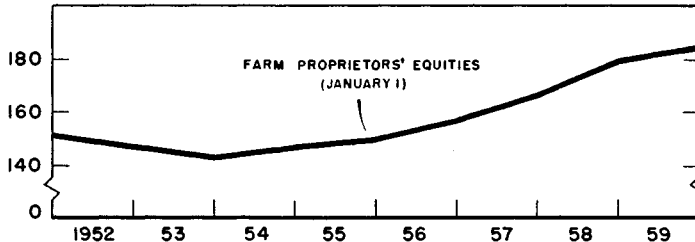
BILLIONS OF DOLLARS



INDEX, 1910-14=100



BILLIONS OF DOLLARS



∟ INCOME OF FARM OPERATORS, INCLUDING GOVERNMENT PAYMENTS.

⋯ INCOME OF ALL FARM PEOPLE.

SOURCE: DEPARTMENT OF AGRICULTURE.

The fall was due in part to the decline in farm prices and an accompanying rise in average production costs. Another cause, however, was that income in 1958 had been lifted well above the amounts recorded in the immediately preceding years by certain factors that could not be expected to recur. Among these were the delayed marketings of crops from the previous year's harvest; the record crop of wheat sold at a supported price; payments to farmers for participation in the acreage reserve, which has since been discontinued; and a cyclically strong demand for beef cattle, sheep, and hogs.

The realized net income of farm operators in 1959 was not greatly different, however, than that in the years immediately prior to 1958, especially if allowance is made for the reduction in the number of farms. In fact, realized net income per farm in 1959 was approximately equal to the average for the period since the end of the Korean conflict, exclusive of 1958. Income earned by the farm population from nonfarm sources, on the other hand, continued to increase in 1959, to an estimated \$6.7 billion, thus probably amounting to more than half of the net income derived from farming itself.

Farm land values, which had been rising for five years, continued to do so in the first quarter of 1959. The rise was practically halted, however, toward the end of the year. Farmers' indebtedness increased, but by a smaller amount than assets, so that by the end of 1959 farmers' equities were 2 percent larger than at the beginning of the year and 62 percent greater than in 1947-49.

INTERNATIONAL ECONOMIC DEVELOPMENTS

In 1959, as in 1958, United States payments in international transactions exceeded receipts by a wide margin (Chart 11). Exports, seasonally adjusted, fell to a low level in the first quarter of the year, but then began to strengthen and in the third quarter rose vigorously. Though this expansion was interrupted later in the year by the steel shortage, the value of exports in the 11 months through November was about the same as in the corresponding period of 1958. Imports, which were little affected by the 1957-58 recession, staged an exceptionally rapid increase until mid-1959 and, on a seasonally adjusted basis, remained steady thereafter at a level much higher than in previous years.

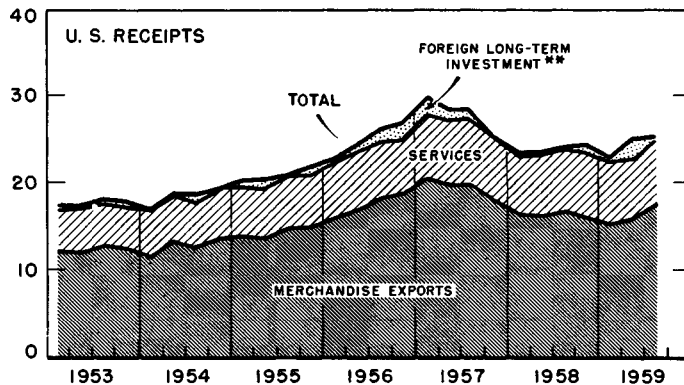
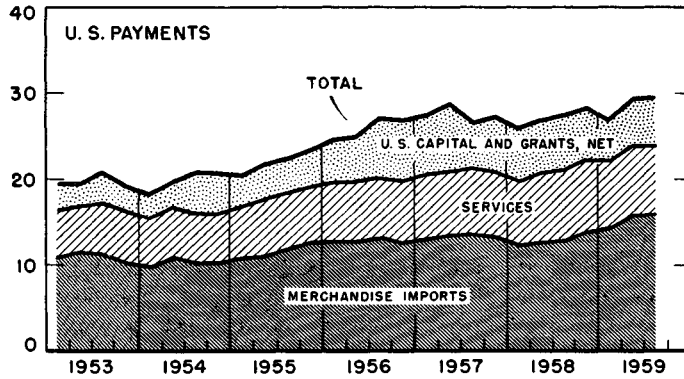
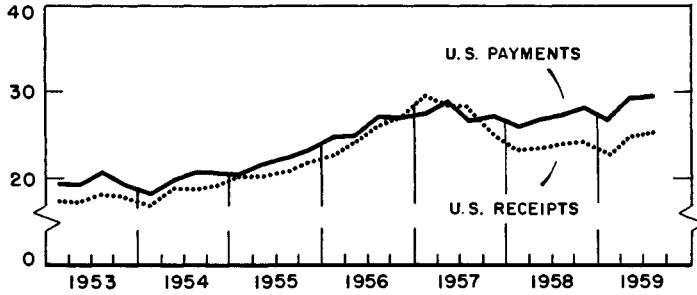
These developments in trade were superimposed upon a heavy outflow of capital and military expenditures, though both of these flows, especially that of private capital funds, were smaller in 1959 than in 1958. The transfer of gold and liquid dollar assets resulting from the gap between aggregate payments and receipts reached an annual rate of \$4.5 billion in the second quarter of 1959. This rate slackened a little in the third quarter, and there was further improvement in later months, reflecting in part a \$250 million advance repayment by the United Kingdom to the Export-Import Bank.

CHART 11

U.S. Balance of Payments

The balance of payments deficit remained large in 1959, though exports strengthened after the first quarter.

BILLIONS OF DOLLARS*



* SEASONALLY ADJUSTED ANNUAL RATES. ** INCLUDES UNIDENTIFIED RECEIPTS.

SOURCE: DEPARTMENT OF COMMERCE.

Among the underlying factors that have contributed to the change in the trade and payments position of the United States since the early postwar years have been the steady recovery and growth in the productive capacity of other countries, including the re-establishment of old comparative advantages and the introduction of new technologies. On the side of demand, the pressures on domestic resources which persisted in many countries long after the war have generally subsided. In some cases, new international cost and price disparities may now have developed to the advantage of these other countries, and the depressed level of ocean freight rates since 1957 has facilitated the marketing in the United States of certain foreign products. Much of the change in trade may be attributable, however, to intensified production and export efforts by other countries on the basis of previously existing cost differences.

These influences have not operated exclusively in one direction. A detailed examination by the Department of Commerce of recent changes in the shares of the United States in different export markets for manufactured goods reveals a considerable diversity of trends, with many gains as well as losses. Moreover, the serious contractions have been concentrated in a few items. Among these, automobiles and steel stand out, as they do in the rise in imports.

A review of recent developments in the foreign trade of the United States must also take account of the effect of business fluctuations at home and abroad and of the special circumstances affecting trade in particular products that figure prominently in this country's exports or imports. Thus, the decline of exports after mid-1957 was associated with a general weakening of foreign import demands, aggravated by the reversal of special forces which had contributed (notably in the cases of petroleum, coal, cotton, and wheat) to the earlier upswing. Similarly, the strengthening of exports during 1959 reflects the renewal of economic expansion abroad. The progress of expansion in countries that are the principal customers for exports from the United States accordingly deserves attention.

Change in the World Market Situation

Economic conditions in virtually all industrially developed countries improved in 1959. In Canada, as in the United States, production had begun to recover in 1958; after some hesitation in the summer of 1959, it rose again in the autumn. Production in Japan had also rebounded sharply in 1958 and continued an extraordinarily rapid rate of expansion. In Western Europe, the check to production at the end of 1957, though enough to produce marked effects on inventory and import demands in 1958, did not result in any widespread downturn, and a new rise in output got under way early in 1959. The difference of about nine months between North America and Western Europe in the inception of the expansion was of some significance for the development of trade and payments on both sides.

By the second half of 1959, most of the more developed countries were reporting impressive increases in economic activity, compared with a year earlier (Chart 12). This strengthening extended to most industries, although coal mining remained a major exception, with adverse effects on United States coal sales in Europe. In most countries, business fixed investment seems to have played a small role, compared with other demands, in starting the upturn, and the market for capital equipment was generally weak at the beginning of the year. It strengthened, however, in most industrial countries as the expansion gained force, and in some of them, notably Germany and Japan, new orders in the capital goods industries increased markedly in the course of the year.

The renewed expansion in industrial countries abroad was initiated in part by an increase in demand for their exports. It is noteworthy, however, that these increases were, at first, almost exclusively in sales to the United States and Canada, which rose strongly after mid-1958. Elsewhere, these other industrial countries faced much the same market conditions as those confronting the United States. The trade among Western European countries at the beginning of 1959 was scarcely higher than a year earlier, but in March it began to rise significantly. Their exports to the nonindustrial countries in the first quarter were 12 percent below shipments in the first quarter of 1958; and in the second quarter they were still no higher than a year earlier.

The weakness of demand in the nonindustrial countries at the beginning of 1959 reflected their generally strained foreign exchange position, resulting from the slowness with which their imports had adjusted downward to the progressive fall in their export prices after mid-1957. In some cases, excess capacity contributed to the weakness in these prices. By the first quarter of 1959, the general level of prices in world trade for primary commodities was 5 percent lower than at the beginning of 1958 and 13 percent lower than at the beginning of 1957 (Table D-76). In Latin America—a market that is relatively much more important to the United States than to Europe or Japan—the fall in export prices (exclusive of petroleum) over the two-year period was about 20 percent. The volume of exports from the nonindustrial countries had, however, begun to improve, and in 1959 some of them began to enjoy better export prices and sufficient earnings to permit both some replenishment of their foreign exchange reserves and some increase in their imports. Sterling area countries were helped especially by the improved markets for wool and rubber. Export gains by other primary producers, notably the Latin American countries, were more moderate or were delayed, and some of these countries continued to experience foreign exchange difficulties.

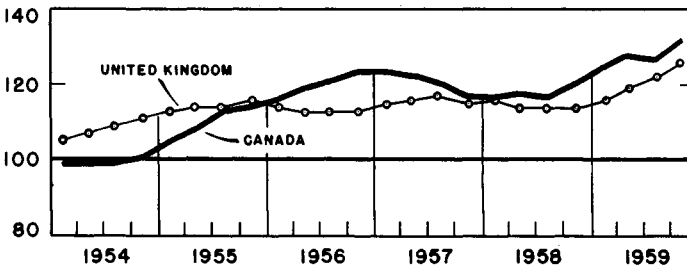
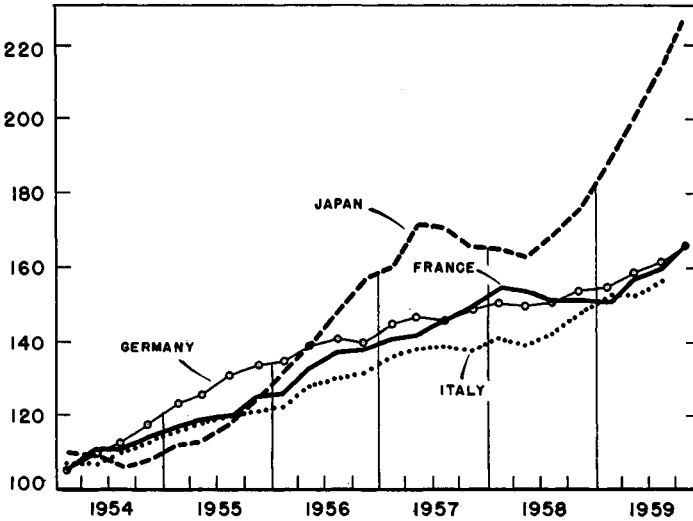
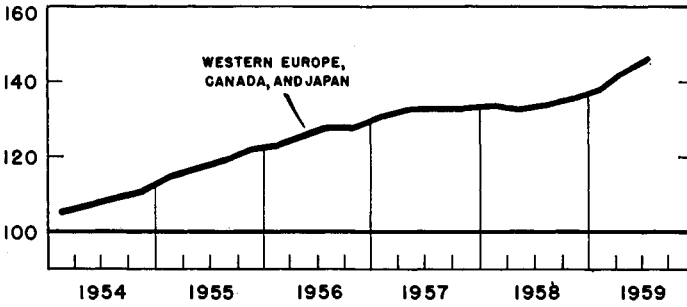
The improvement in the world market situation during 1959 is shown by the summary import figures in Table 4. In the first quarter, imports of industrial countries other than the United States and Canada were little higher, and in some cases lower, than in 1958, and those of the nonindustrial

CHART 12

Foreign Industrial Production

The pace of production abroad, which had slowed after mid-1957, increased rapidly in 1959.

INDEX, 1953 = 100 (SEASONALLY ADJUSTED)



SOURCES: ORGANIZATION FOR EUROPEAN ECONOMIC COOPERATION AND COUNCIL OF ECONOMIC ADVISERS.

TABLE 4.—*World imports, 1958-59*¹

[Billions of dollars]

Country or area	1958	1959		
		First quarter	Second quarter	Third quarter ²
		Seasonally adjusted annual rates		
World imports (c.i.f.) ¹	100.7	98.6	105.5	108.4
United States ³	14.0	15.2	16.9	17.1
All other countries.....	86.7	83.4	88.6	91.3
Other industrial countries.....	51.5	51.6	54.0	55.5
Continental OEEC countries.....	32.1	31.5	33.3	34.3
United Kingdom.....	10.6	10.8	10.8	11.2
Canada.....	5.8	6.1	6.4	6.4
Japan.....	3.0	3.2	3.5	3.6
Nonindustrial countries.....	35.2	31.8	34.6	35.8
		Unadjusted annual rates		
Nonindustrial countries.....	35.2	31.6	34.7	35.0
Sterling area, excluding United Kingdom.....	14.2	13.1	14.2	14.2
Latin America.....	8.5	7.0	20.5	20.8
All other.....	12.5	11.5		

¹ Excludes Soviet Area and Communist China.² The world total and the total for the nonindustrial countries in the third quarter of 1959 are provisional.³ Figures for the United States include an adjustment by the International Monetary Fund to a c.i.f. (cost, insurance, freight) basis for purpose of comparability with other countries' data.

Sources: International Monetary Fund, Department of Commerce, and Council of Economic Advisers.

countries were sharply reduced. In the second quarter, imports of the industrial countries and of some of the nonindustrial countries strengthened appreciably, and the improvement continued in the third quarter.

United States Foreign Trade and Payments

In the early months of 1959, United States exports continued to reflect the consequences of the relatively low world demand and certain other unfavorable influences. Coal exports, despite the price advantage favoring the United States, met increasing obstacles because of the oversupply of coal in Europe; cotton shipments were held down in prospect of a change in the United States export price at the start of the new crop season; and exports to many of the primary producing countries, especially in Latin America, remained weak.

In the second quarter, and still more in the third, these influences were offset by the resurgence of economic expansion in the more developed countries. United States exports responded well to the upturn in inventory investment and in expenditures on machinery and equipment in these countries (Table 5). Agricultural exports other than cotton also strengthened in the course of the year, and by the fourth quarter cotton exports were beginning to show the anticipated large increase over the previous year.

TABLE 5.—United States exports, July to October, 1958 and 1959

Item	July- October 1958	July- October 1959	Percentage change
	Millions of dollars		
Total exports, excluding "special category" ¹	5,071	5,267	3.9
Cotton, unmanufactured.....	148	100	-32.4
Coal, petroleum, and related products.....	358	280	-21.9
Exports, excluding above items, to Latin America.....	1,268	1,136	-10.4
All other exports.....	3,297	3,751	13.8
Geographic distribution:			
Canada.....	1,047	1,143	9.1
Western Europe.....	1,205	1,404	16.5
Japan.....	191	238	24.9
Other countries, excluding Latin America.....	853	965	13.1
Commodity distribution:			
Agricultural products.....	940	1,077	14.6
Machinery.....	786	884	12.5
Transportation equipment.....	332	350	5.5
All other, including reexports.....	1,240	1,440	16.2

¹ Total and area data include reexports; commodity data exclude reexports.

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

Source: Department of Commerce.

On the other hand, a decrease in exports of machinery and vehicles in November appeared to be attributable to shortages of steel arising from the work stoppage in that industry.

United States merchandise imports rose in little more than a year by about 25 percent from their recession low in the first quarter of 1958. The principal elements in this expansion were the strengthening of demand for industrial materials, as domestic economic activity began to increase; the continued rise in purchases of foreign automobiles and other consumer manufactures; and special demand situations relating to meat, steel, and building materials. With the easing of some of these demands, total imports, seasonally adjusted, did not increase further after midyear.

Changes in service transactions in 1959 were of much less consequence than those in trade. Among United States expenditures abroad, military disbursements were somewhat lower in the first three quarters of the year than in the same period of 1958 and travel outlays somewhat higher. Among receipts, income from direct investments abroad, while lower than in 1958, tended to strengthen in the course of the year.

Influenced by the rise in interest rates in this country, the outflow of capital in the first three quarters of 1959 remained considerably below the high rate of the preceding year, thereby offsetting part of the adverse shift in the goods and services balance. The net outflow of capital was exceptionally low in the first quarter, but rose in the second and remained steady in the third. With imports of goods and services also remaining unchanged and exports rising from the second to the third quarter, the excess of payments on recorded transactions declined. Net transfers of gold and liquid dollar assets to other countries did not diminish correspondingly in the

third quarter. This disparity is thought to be due to lags in crediting payments to foreign accounts, with the result of understating the gold and dollar outflow in the second quarter and of overstating it in the third. Incomplete data for the fourth quarter indicate a decline in the rate of gold and dollar transfers, partly attributable to large advance payments of foreign obligations to the United States.

OUTLOOK

Although it is always difficult in a dynamic, free economy such as ours to depict in advance the course likely to be taken by production, employment, and income, present indications warrant the expectation that the expansion now in progress will be extended through 1960. And there are good grounds for belief that, with appropriate public policies and private actions, the expansion can continue well beyond the present year.

Prospective Expansion of Demands

Past developments and present conditions clearly suggest that the demands of business concerns for capital goods and for inventories will be especially important factors in the year ahead. Expenditures on capital goods have been rising for more than a year and should continue upward in 1960. In part, and especially during the early months, the increase will represent a catching-up on projects delayed or postponed because of shortages attributable to the steel strike. Chiefly, however, capital investment should rise in response to favorable underlying factors now discernible and likely to strengthen as the year progresses. Surveys of businessmen's intentions, and the increased volume of contract awards and of new orders for industrial machinery, confirm this outlook. A good demand from the farm economy for machinery and equipment may also be anticipated.

Expenditures for residential construction, a second major category of capital investment, are not likely to be as high as in 1959. However, the extent of the decline should be limited, and activity in this sector of the economy should exceed that of most recent years. Outlays for modernization and alterations should be a steady expansive force in the building industry.

Within the aggregate of government outlays, Federal expenditures for goods and services should change little in the first half of the year; but later, in line with provisions in the fiscal 1961 budget for the development of water resources and other public works, and for space and aviation programs, they should increase moderately. The upward trend of expenditures at the State and local level, which reflects particularly the provision of services needed by the growing urban population, may be expected to continue, though possibly at a slower rate. The construction of schools, public service enterprises, and community facilities in general is expected to advance moderately and to outweigh declines in activity that occur under

the Federal-aid highway program as a result of the mandatory reduction in apportionments under the present law.

Changes in investment in business inventories are likely to be less regular during the year than the changes in final demands. Restocking needs are clearly apparent, not only for steel but also for many steel-using intermediate and finished products; and further additions to inventories will be required throughout the economy as production and final sales increase. Inventory expenditures and the other outlays noted above should contribute to a strong expansion in production, employment, and income. The increase in employment should exceed that of the labor force and, correspondingly, unemployment may be expected to fall. Within this context, consumer incomes and expenditures may be expected to increase substantially during the year. Also, consumer confidence is favorable to an increasing volume of purchases of consumer durable goods.

The financing of the investment needs outlined here, together with a significant volume of consumer credit, will make strong demands upon the Nation's capital and credit markets. At high levels of income and savings, a greater supply of investment funds may be expected. The sizable Federal budget surplus projected for the fiscal year 1961 would be helpful in relieving pressure on the supply of funds.

Balance of Payments Prospects

A moderate improvement in the United States balance of international payments seems to be ahead in 1960. Imports of capital equipment and consumer manufactures may, on balance, continue their upward trend. And, as industrial production continues to rise, imports of industrial materials may grow, though presumably more slowly than in the recovery phase following the 1957-58 recession. On the other hand, the particular supply and demand situations noted earlier in this chapter, which have been responsible for the rapid rise of certain imports, are shifting; these imports are now expected to increase less rapidly, and some of them may even decline. The growth of total imports, therefore, may well be considerably smaller in 1960 than the rise in the period from early 1958 to mid-1959.

Exports should gain from the strong expansion of production and investment that is proceeding in the industrial countries abroad. This expansion should benefit United States sales indirectly also, as the primary producing countries find their purchasing power raised by their higher exports to the industrial countries. Moreover, certain major exports that declined in 1959, as discussed above, may cease to decline in 1960, or may increase.

On this appraisal, exports in 1960 should rise appreciably more than imports. Also, receipts from services are expected to rise faster than payments for services and military expenditures abroad. Net exports of goods and services, as registered in our national income accounts, should show a positive balance. On the other hand, new United States invest-

ment abroad may increase, especially if interest rates in other countries continue to rise. Therefore, the over-all payments deficit may still be relatively large in 1960. To assist in attaining a needed adjustment of the balance of payments consistent with our goal of promoting multilateral world trade, a strengthening of exports continues to be essential. The level of exports will depend on such fundamental conditions as the rate and regularity of expansion of activity abroad, the progress of other countries toward more liberal trade policies, and our own efforts to strengthen the competitive position of United States products in foreign markets.

Conditions for Sound Advance

Our success in realizing the opportunities that 1960 presents, and for extending economic growth at a high and stable rate into the future, will depend upon the actions of business management, labor leaders, and consumers, as well as on the policies of Government, toward maintaining the balance in our economy that is required for sustainable growth. A Federal program for 1960 that is designed to help achieve our national economic objectives is offered in Chapter 4, together with suggestions for appropriate private action.

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.

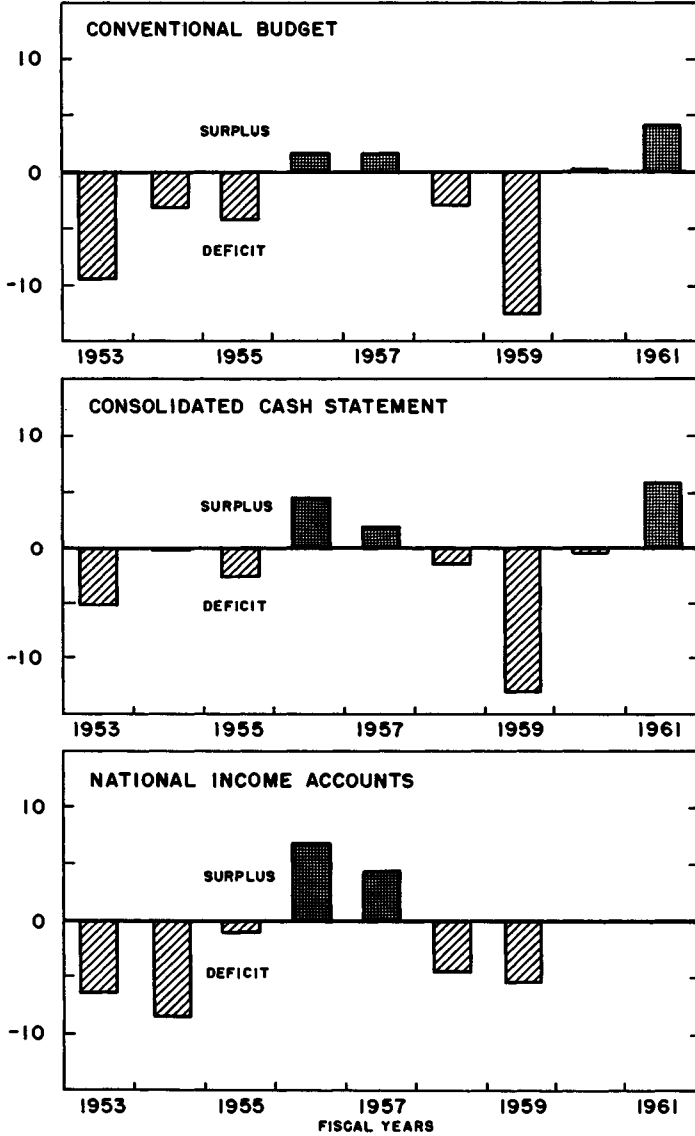
On the expenditure side, all major categories except interest payments on the public debt rose in fiscal 1959 (Table 6). Part of the increase can be attributed directly to actions taken to help counteract economic recession.

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 $3\frac{1}{4}$ 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 $4\frac{1}{4}$ percent, and the rate on new Series E and H savings bonds was promptly raised to $3\frac{3}{4}$ percent, effective June 1, 1959. The return on outstanding Series E and H bonds purchased before June 1 was also increased by approximately $\frac{1}{2}$ 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.

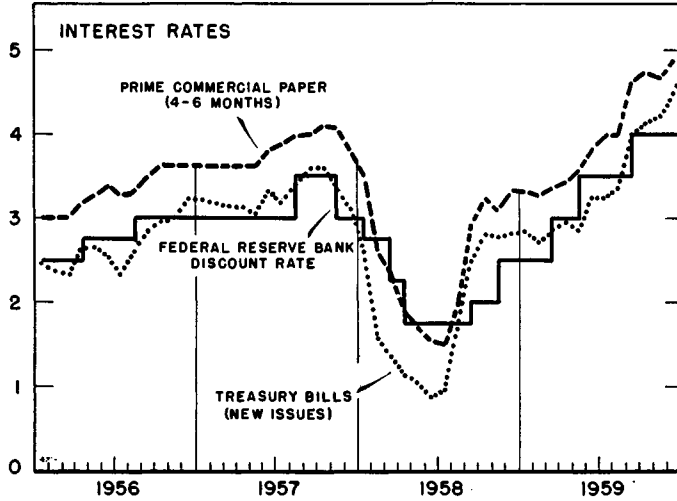
In pursuance of a policy of greater restraint, Federal Reserve Banks in March, May, and September 1959 raised the discount rate charged by them to member banks from $2\frac{1}{2}$ to 4 percent, paralleling the rise in the interest rate on 3-month Treasury bills (Chart 14). Open market operations in United 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

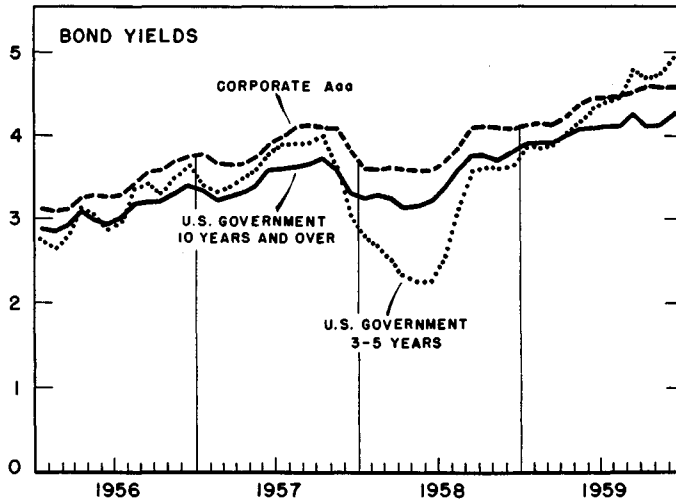
Short-term interest rates rose sharply in 1959 . . .

PERCENT PER ANNUM



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

PERCENT PER ANNUM

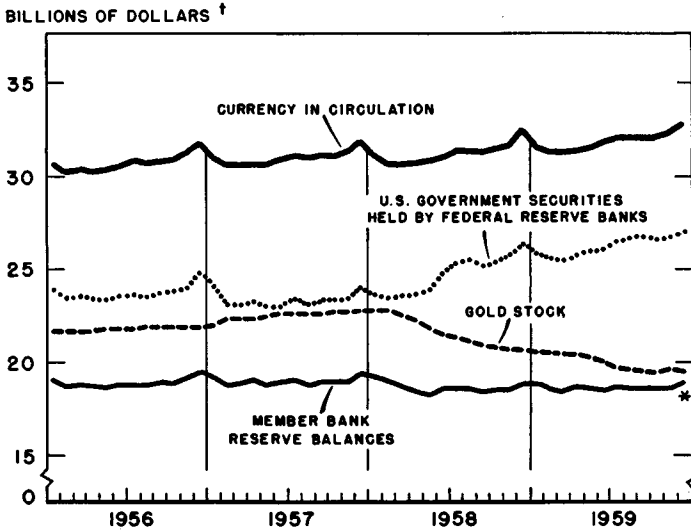


SOURCES: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, TREASURY DEPARTMENT, AND MOODY'S INVESTORS SERVICE.

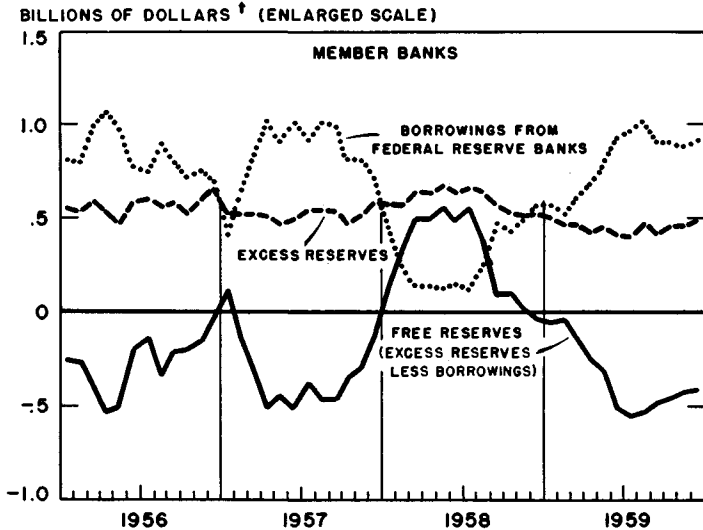
CHART 15

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, flourspar, 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.

Chapter 4

A Legislative Program for 1960

THE 1960 PROGRAM for promoting high employment, production, and income is intended to supplement and reinforce the large body of pertinent laws already administered by the Federal, State, and local governments. It also takes account of the pervasive influence on economic growth and well-being of the institutions and practices of the private sector of the economy. Thus it is consistent with the concept of the Employment Act—that responsibility for economic advance in our free society is shared by the Federal Government with other political divisions and the private economy. The specific proposals have been shaped with a view to their appropriateness in the current economic context and with due regard to the longer-range challenges and opportunities noted in Chapter 1.

FEDERAL FINANCES

In view of present economic conditions and prospects, a Federal budget that not merely balances expenditures with revenues but achieves a significant surplus for debt retirement is clearly the fiscal plan most appropriate for promoting the purposes of the Employment Act. Such a plan has been transmitted by the President to the Congress for the fiscal year 1961.

In addition to making adequate provisions for defense, for meeting the obligations of our international leadership, and for supplying other needed services, the proposed budget would make an essential contribution to the strengthening of our national economy by yielding a \$4.2 billion surplus of receipts over expenditures. By helping to restrain inflationary pressures, such a budgetary surplus would be a significant factor in promoting steady and vigorous economic growth. It would help meet demands for savings in credit and capital markets and thus facilitate and make less costly the financing of private and State and local investment projects important to economic growth and well-being. It would greatly facilitate the economical and noninflationary management of the Federal debt. It would also reinforce confidence at home and abroad in the United States dollar, and contribute in this way not only to the strength of our economy but also to the economic health of the entire free world.

Attainment of the projected surplus in the fiscal year 1961 will depend in part on economic conditions in the next year and a half. However, favorable action by the Congress on certain tax and postal rate pro-

posals and on recommended expenditures is also needed to assure this highly desirable budgetary outcome.

The Congress has been requested to extend the corporate income tax at the present rate for another year; to postpone for an additional year the reduction of excise taxes on alcohol, tobacco, automobiles, and automobile parts and accessories that is now scheduled for June 30, 1960; and to postpone for a year the repeal of the tax on local telephone service and the reduction of the tax on transportation of persons, likewise scheduled for June 30, 1960. The Congress has also been requested to make certain corrective amendments in the tax laws applicable to cooperatives; to preclude unintended and excessive percentage depletion allowances for mineral products, if this problem is not satisfactorily resolved through litigation pending before the Supreme Court; to tax as ordinary income any gain realized by the sale of depreciable personal property used in business, to the extent of the depreciation deductions previously taken on the property; to defer the taxation of income earned in less developed countries of the world; to increase the aviation fuel tax to $4\frac{1}{2}$ cents per gallon; and to impose a tax of $4\frac{1}{2}$ cents per gallon on jet fuel. To assure construction of the interstate highway system at a high rate and on a self-supporting basis, the Congress has been asked to increase the highway fuel tax by $\frac{1}{2}$ cent per gallon and to continue the tax at $4\frac{1}{2}$ cents per gallon until June 30, 1964. This action would obviate diversion of excise taxes from the general fund. In addition, favorable action by the Congress has been requested on an adjustment of postal rates. The effect of the recommended rate increases would be to reduce the deficit on postal operations by about \$550 million and to contribute, by this amount, toward the attainment of the desired surplus.

Expenditures in the fiscal year 1961 are estimated at \$79.8 billion, an increase of \$1.4 billion above the estimate for the current fiscal year. Some of this increase will occur under commitments already made in accordance with existing laws; some would be incurred under recommendations made to the Congress in the budget for fiscal 1961. A considerable part of the rise involves programs that directly support our economy's capacity for growth. Among these are programs for the development of land and water resources; for the promotion of research, education, and science; for the construction of physical facilities in the field of health; for urban renewal; for the expansion and improvement of highway and air transportation; and for aid to other nations of the free world.

A major proposal has been made to the Congress for legislative action in the field of public debt management. This proposal is of particular importance in view of the large amount of the public debt, now more than \$290 billion, and its heavy cost, involving interest payments in the fiscal year 1960 estimated at \$9.3 billion. Specifically, the Congress is requested to remove the $4\frac{1}{4}$ percent ceiling on the interest rate which can be paid on United States Government securities with a maturity of more

than 5 years. Events since this request was first made have underscored its importance for minimizing the hazard of creating inflationary pressures through public debt transactions; for giving greater latitude in the conduct of monetary and credit policies conducive to the growth and stability of the economy; and for financing the debt as economically as possible.

Also, to permit the financing of seasonal increases in the Federal debt during the fiscal year 1961, it is necessary to enact a temporary debt limit that is somewhat higher than the present permanent limit of \$285 billion. A proposal to this effect will be made to the Congress prior to the expiration on June 30, 1960 of the present temporary limit of \$295 billion.

COMPETITION

The importance of vigorous competition to the promotion of economic growth is recognized in the Employment Act, which calls upon the Federal Government to pursue policies for economic expansion in ways that foster free competitive enterprise. To strengthen competition, some improvement is needed in the existing body of antitrust laws.

Four specific legislative actions recommended last year are again requested of the Congress. The first would require that antitrust agencies be notified when firms of significant size engaged in interstate commerce propose to merge. The second would authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely. The third would strengthen Federal law governing bank mergers accomplished through the acquisition of assets. The fourth would 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. This recommendation, which was acted upon favorably last year by the Senate, is urgently needed to strengthen the investigative authority of the Attorney General.

SMALL BUSINESS

Federal policies and programs to benefit small business, which also contribute to the competitive quality of our enterprise economy, have evolved along lines marked out by recommendations of the Cabinet Committee on Small Business and by various laws.

The Small Business Administration (SBA) provides a wide variety of services to eligible firms and individuals. For example, it supplies loan funds, for periods up to ten years, to small businesses unable to obtain financing from other sources on reasonable terms. Under this program, SBA in 1959 approved a total of 4,533 loans, amounting to \$217 million, to small business concerns; \$186 million was to be supplied directly by SBA and the remainder by private financial institutions under participation arrangements. Second, in cooperation with the Defense Department and civilian procurement agencies, SBA reserves certain proposed Government

procurements for competitive bidding exclusively by small businesses. These "set-asides" amounted to \$1.1 billion for the 11 months through November 1959. As a result of them, contracts amounting to \$860 million were awarded to small firms in the first 11 months of 1959, contrasting with \$771 million in the full year 1958 and \$557 million in 1957. Third, with the concurrence of the Attorney General and the Chairman of the Federal Trade Commission, SBA approves the formation of small-business pools to assist enterprises in overcoming handicaps attendant upon a small scale of operations in carrying out production and research and development contracts. Fourth, SBA publishes and distributes information on management and technical subjects and has developed a program of courses in cooperation with educational institutions to acquaint owners and managers of small concerns with more efficient methods of planning, organizing, and conducting business operations. Fifth, SBA awards grants to universities, colleges, and State agencies, for research on problems of small businesses; these grants in 1959 totaled \$1.9 million. Finally, loans are being made under the authority provided in the Small Business Investment Act of 1958 for long-term loans to State and local development corporations for the ultimate benefit of small business concerns; by the end of 1959, these loans amounted to some \$4 million.

The use of the new powers granted by the Small Business Investment Act of 1958 to license and help finance investment companies that specialize in providing equity capital or long-term loans to eligible small concerns was promptly initiated by the Small Business Administration. Some 61 such companies are now licensed, with a present total capitalization of \$40 million, of which \$5.5 million has been committed by SBA.

Experience so far suggests that the specifications set down in the Small Business Investment Act as to the types of securities that may be purchased by small business investment companies are perhaps too rigid. Accordingly, proposals have been made to the Congress for amendments to the Act to provide the needed flexibility. Long-term financing by small business concerns would also be assisted by favorable Congressional action on a request, repeated again, for an amendment to the Securities Act of 1933 to increase from \$300,000 to \$500,000 the maximum amount of a corporate security issue for which the privilege of simplified Regulation A filings may be accorded.

AGRICULTURE

Federal expenditures for agriculture and agricultural resources in the fiscal year 1960 are expected to total \$5.1 billion. Of this amount, some \$1.6 billion is for the support of research, conservation, marketing, and similar services, and for loan programs; and \$3.5 billion is for price and income stabilization. A sizable portion of the latter amount is absorbed by interest charges, storage and transportation costs, and disposal losses on excess stocks of farm commodities.

To the extent possible under present legislation, administrative actions were taken in the past year to help bring about a better adjustment between agriculture's greatly expanding capacity to produce and the demand for farm products, to improve farm incomes, and to reduce the heavy cost of agricultural programs to the Federal Government. More emphasis is being placed on the development of markets for farm products at home and abroad, on efforts to support prices at levels that will more nearly balance production with potential demand, on the removal of cropland from production, and on the development of the nonagricultural resources of marginal, low-income farm areas.

Several actions taken in these directions during 1959 were of special importance. First, support prices for cotton were adjusted as individual producers were given, for the first time, a choice between (1) continuing compliance with tightly restrictive acreage allotments, with prices supported at 80 percent of parity, and (2) freedom to plant up to 40 percent beyond the allotment, with prices supported at 65 percent of parity. Second, under existing legislation, corn producers abolished their acreage allotments by referendum late in 1958 and thereby put into effect a single schedule for price support at 90 percent of the three-year average market price with a minimum price support level of 65 percent of parity. Third, support prices for several commodities, including rye, oilseeds, dry beans, and feed grains other than corn, were reduced under discretionary authority of the Secretary of Agriculture. A number of these commodities are selling at prices above support levels. The support prices for tobacco were increased under mandatory provisions of the law. Fourth, under the law, efforts were continued for the disposal abroad, without disrupting ordinary commercial markets, of as large a volume as possible of stocks of the Commodity Credit Corporation. This action was aided by a renewal of the International Wheat Agreement and by a lowered price and an increased export subsidy for cotton. Fifth, in accordance with legislation, the acreage reserve portion of the Soil Bank was terminated after the 1958 season, but the Conservation Reserve was increased from 9.9 million acres in 1958 to 22.4 million in 1959. Sixth, the Rural Development Program was strengthened with the establishment, by Executive Order, of an interdepartmental committee responsible for the coordination of policies and actions of all participating Federal agencies and for the acceleration of activities under the Program. Finally, under a newly enacted law, benefits under price support loans for 1960 were limited for a number of crops to \$50,000 per producer, unless acreage is reduced 20 percent below the 1959 amount or the part of the loan in excess of \$50,000 is repaid within 12 months.

Additional agricultural legislation is urgently needed, however, in view of the continuing high program costs borne by the Federal Government and the continuing accumulation of surpluses of farm products. Such legislation should assist an orderly transition toward eventual balance between

production and demand for farm products, so that the restrictive limitations to which agriculture is subject under present law may be removed.

The Conservation Reserve Program should be expanded, provided certain conditions are fulfilled, and adapted to the correction of specific commodity problems on a regional basis. Legislation is proposed to extend through the 1963 crop year authority, which expires after the 1960 crop year, to bring additional land into the Conservation Reserve; and to expand the program by increasing the basic limitation on the total payments in any calendar year from \$450 million to \$600 million. It is planned under the proposed legislation to add about 9 million acres to the program during the 1961 crop year, thus bringing the total to about 37 million acres. Together with this expansion in acreage in the Conservation Reserve, realistic price support programs are needed, especially for wheat.

Specific authority will be requested for the Secretary of Agriculture to give special consideration, in allocating Conservation Reserve funds, to those States and regions in which curtailment of production of wheat or other surplus commodities is consistent with long-range conservation and production-adjustment goals. The future authorization for the Conservation Reserve Program should not be increased above the 1960 level unless needed price-support legislation is enacted for wheat. Federal policy on cost-sharing should be concentrated in the future on conservation measures that foster needed shifts to less intensive uses of cropland; and cost-sharing assistance should be eliminated for practices which increase output of agricultural commodities already in excess supply.

New obligational authority of \$10 million is requested for the Great Plains Conservation Program, the same as for the fiscal year 1960. Under this Program, conducted in designated counties of the ten Great Plains States, the Federal Government provides technical assistance to farmers who enter into long-term contracts to make needed adjustments of land use on their farms, and it shares in the cost of making such adjustments.

The Sugar Act, which expires on December 31, 1960, should be extended early in the present session of the Congress.

Limitation on price support for certain crops grown on newly irrigated or drained land should be extended for another three years.

The Congress should again consider the amendments to the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) proposed last year to make more effective the program for surplus disposal abroad.

Favorable action by the Congress is also requested on pending legislation to place the loan program of the Farmers Home Administration on a revolving-fund basis and to make other improvements in the laws affecting this activity.

The Rural Electrification Administration (REA) continues to provide additional electric power generating capacity and heavier transmission and distribution facilities. At present, 96 percent of all farms have central

station electric service, and more than one-half of REA's power is sold to nonfarm customers. The latter comprise over 80 percent of the new customers served. Legislation is proposed under which REA's borrowings from the Treasury would be at an interest rate not in excess of the average rate paid by the Treasury on recently issued long-term marketable obligations, and REA would charge that rate plus one-fifth of one percent on future electric and telephone loans. Also, pending legislation should be enacted to place REA's operations on a revolving-fund basis.

NATURAL RESOURCES

The Federal Government has traditionally pursued policies designed to assure an adequate supply of raw materials for current economic activity and also to conserve and develop resources for future needs. Significant advances in geological and geophysical exploration methods have led to the discovery of new bodies of ore. Another area of Federal activity is participation in the construction, maintenance, and operation of water projects. These projects meet various needs, often simultaneously—human consumption, irrigation, flood control, power generation, navigation, and recreation. Expenditures for such purposes are expected to rise to \$1.2 billion in the fiscal year 1961. The Congress is requested to enact a pending proposal for establishing a consistent basis on which non-Federal beneficiaries will share the costs of protection against floods.

Additional programs are being conducted by the Federal Government to improve the water supply, which is a major problem in many parts of our country. Encouraging progress is being made in research on techniques of converting brackish and sea water into fresh water. Important research advances have also been made in water conservation techniques. The Congress will be requested this year to strengthen the enforcement provisions of Federal legislation for control of water pollution. Increasing attention is being directed also to local needs for limiting air pollution.

Sound management of timber resources is another aspect of Federal concern in the development of natural resources. The Government seeks not only to improve timber stands in national forests and on other public lands, but also to promote conservation practices on private woodlands. More than \$200 million is being spent annually on Federal programs concerned with forest resources, in addition to outlays for soil conservation on farms, a part of which is also directed to improving forest resources.

In recent years, increasing amounts of Federal funds have been spent annually for the conservation, development, and wise use of recreational and fish and wildlife resources. Intensive efforts are being made to accommodate an ever-increasing number of visitors to national parks, expected to reach 80 million by 1966. In this connection, enactment has been

requested of a pending proposal for the preservation of certain undeveloped shoreline areas for public use.

Federal assistance is also being provided for the enlargement and diversification of the Nation's mineral reserves. Mapping surveys, field appraisals, and research programs on extraction methods and product utilization contribute directly to these ends. Other contributions are being made, for example, through the schedule of depletion allowances in the Internal Revenue Code and the mandatory limitation of imports of petroleum and petroleum products. Legislation will again be recommended for a long-range program to conserve helium gas, for contract authority on coal research, and for revision of the fee schedule for noncompetitive oil and gas leases on public lands.

RESEARCH AND DEVELOPMENT

The annual investment of sizable amounts of Federal funds in research and development programs has served significantly to enlarge the scientific and technological potential of the Nation. These outlays, which have increased rapidly in recent years, exceed those made by business firms and nonprofit institutions for the improvement of the technical base of our society. According to revised compilations recently reported by the National Science Foundation and the Bureau of the Budget, Federal research and development obligations for the fiscal year 1960 exceed \$8.1 billion; they were \$7.9 billion for the fiscal year 1959 and \$5.9 billion for fiscal 1958. Estimates of expenditures for the same three periods are somewhat lower—\$7.5 billion, \$6.6 billion, and \$4.5 billion.

The predominant share of the Federal funds for research and development is devoted to military projects; but, even so, the benefits obtained from them by the civilian economy have been, and will remain, impressive. The billions of dollars spent annually for procurement and construction under programs of the Department of Defense and the Atomic Energy Commission likewise have a peacetime value apart from their immediate contribution to the Nation's security. Many areas of defense spending that will continue to influence civilian technology may be cited—for example, the development and production of aircraft and missiles, data-processing machines, electronic communication and control equipment, high-energy fuels, unconventional devices for generating electrical energy, solar furnaces, and metallic and other materials meeting strict performance requirements under stress and at extreme temperatures.

The peacetime usefulness of atomic energy is also being demonstrated in both research and production. Thus, more than 2,000 patents have been released for public use without payment of royalties. Civilian nuclear power reactors are being developed for eventual economic use in the United States and abroad. Research is being conducted in the realms of high-energy physics and controlled thermonuclear fusion. Radioisotopes are being used in agricultural research and various industrial processes.

Through bilateral agreements, participation in the International Atomic Energy Agency, cooperation with regional atomic energy organizations, and international conferences and exchanges of visits, efforts are being made to widen these opportunities for the constructive application of nuclear energy.

By far the greater part of the Federal research and development budget supports projects that are performed extramurally by profit and nonprofit organizations under contract. Accordingly, many of the benefits of new knowledge are diffused quickly and widely. Thus, some companies acquire patents and know-how that serve, and will continue to serve, productive purposes that range far beyond the objectives of the original research projects. Employees acquire new skills and specialized experience, and the backgrounds of participating teachers, doctors, and other professional workers are also enriched. In the fiscal year 1960, extramural projects will account for about \$6 billion of the Federal obligations for research and development. The corresponding figure for the fiscal year 1959 is \$5.5 billion, and for the fiscal year 1958, \$4 billion.

The civilian economy is deriving technological advantages not only from Federal expenditures for research, procurement, and construction but also, of course, from the multibillion-dollar annual research outlays of business firms and other private organizations. Various Federal legislative provisions have been designed to encourage business participation in private research ventures. Among these are Section 174 of the Internal Revenue Code of 1954, which permits business expenditures for research to be deducted from taxable income, and Section 9 of the Small Business Act of 1958, which encourages small business concerns to engage in joint research and development efforts.

Federal support of basic research in the physical, biological, and social sciences has been expanded in recent years, and an increasing proportion of the funds for such research is being channeled into educational institutions, including research centers administered by colleges and universities. The amount obligated for basic research in the fiscal year 1960, as in 1959, is close to \$500 million, an increase of almost one-half over the total for 1958.

EDUCATION AND HEALTH

In our Nation, responsibility for education and training and for health services has traditionally been borne by local and State governments and by private groups. The Federal Government supplements these efforts, however. In the current fiscal year, its expenditures for the promotion of education will total \$549 million. Indeed, Federal support for public education dates from the Ordinance of 1787; another landmark is the land grant college system, which will soon celebrate its 100th anniversary. Federal interest in health may be traced to 1798, when the Public Health Service was established; the first food and drug law was enacted over half a century ago.

The efforts in these fields at all levels of government—local, State, and Federal—and by private groups are impressive, and they are expanding rapidly. In the last ten years, total public and private expenditures for education have almost tripled, reaching \$22 billion in 1959; the number of teachers in elementary and secondary schools has increased by 450,000, and their average compensation has risen by 71 percent.

Public and private expenditures for health and medical care have almost doubled during this period—from more than \$12 billion to about \$24 billion. Annual Federal expenditures for health and medical programs rose from about \$700 million to \$1.5 billion, and State and local expenditures increased from \$1.7 billion to well over \$2.5 billion.

Yet, as noted in Chapter 1, increased public and private efforts in education and health will be required to meet the needs of a growing population and labor force. During the next five years, the population aged 14 to 24 will increase by nearly 1,400,000 annually, compared with 625,000 per year from 1955 to 1960. The Nation's educational institutions will have to prepare to accommodate far greater numbers of high school, college, and graduate students. State and local governments will have to redouble their programs to provide teachers and equipment for secondary and higher education. The assurance of an adequate supply of doctors and other health personnel will require an expansion of medical training facilities. Since the growth of the seasoned labor force of persons over 25 years of age will be small, in contrast to the increase in the number of younger and less-experienced persons who will be seeking employment, business firms will find it advisable to expand job-training programs.

For its part, the Federal Government has already been providing large-scale support for education programs administered by the Department of Health, Education, and Welfare, the National Science Foundation, the Atomic Energy Commission, and other agencies. Under the National Defense Education Act of 1958, Federal contributions are being made to student loan funds; matching grants are being provided for equipment needed in teaching science, mathematics, and foreign languages; and assistance is being given to teacher training in foreign languages, graduate study in all fields, including science and mathematics, and guidance counseling and testing services. Other programs include graduate and faculty fellowships, institutes for college and high school teachers of science and mathematics, traineeships, and grants for research and equipment. In the current school year, about 100,000 college students, almost three times as many as last year, are expected to make use of the loan funds established under this Act.

Expenditures for education and training of veterans, currently requiring nearly \$450 million, will amount to a little more than \$300 million in the fiscal year 1961. For ex-servicemen having service-connected disabilities, however, a necessary program of vocational rehabilitation will be recommended to the Congress.

As noted, programs for raising standards of health throughout the Nation have been given large and increasing Federal support in recent years. These programs include the research conducted at the National Institutes of Health, research grants to medical schools and research institutions, and grants to States for the construction of hospitals and other health facilities. They will entail Federal expenditures approaching \$600 million in 1961, about double the amount spent for these purposes in the fiscal year 1953.

Finally, a program involving Federal expenditures of nearly \$1 billion in the fiscal year 1961 serves veterans eligible for hospitalization and other medical benefits under existing law.

PERSONAL SECURITY

The efforts of Government to foster sustainable inflation-free economic growth are its principal contribution to strengthening the foundations of personal security for all Americans. An expanding economy offers opportunities for better jobs and self-advancement, for good homes, and for greater independent financial provision against the hazards of life. As indicated in Chapter 1 of this Report, Americans have scored impressive improvement in recent years in individual security and well-being. Nevertheless, as earlier Economic Reports have pointed out, a dynamic, urban economy also presents hazards to personal security that in some instances may be met inadequately or not at all by individual efforts. By helping individuals overcome these hazards, Government strengthens the foundations of personal security; and, by improving morale and efficiency and helping to maintain incomes in times of economic slack, it further enhances the economy's capacity for healthy growth.

Existing programs for promoting personal security and welfare should be adjusted in certain respects. First, improvements are needed in the Federal-State unemployment insurance system. The scope of this system, under which some \$2.4 billion was paid in 1959 (exclusive of benefits for Federal employees, veterans, and railroad employees), should be extended to employers of one or more persons, to nonprofit institutions, and to Federal instrumentalities that are not now covered. It is also recommended that the Federal-State system be extended to Puerto Rico, which now has its own unemployment insurance law, and that the provisions of the District of Columbia law be brought up to the standard recommended for all States. Under the present Federal-State system, the responsibility for the amount and duration of benefits rests with the States. In general, benefits have lagged behind the rise in wages, and it is again recommended that the States increase their benefits to make the great majority of covered workers eligible for payments equal to at least half their regular earnings; and that the States increase the maximum duration of benefits to 26 weeks a year for all eligible workers who remain unemployed that long.

The heavy unemployment benefit payments during the last recession strained the finances of several State unemployment funds. Three of these States secured \$213 million in loans from the Federal Unemployment Account. Three other States were eligible for such advances. It is possible that the funds of a few additional States would be in a precarious financial condition if another recession should occur in the next few years unless their finances are improved. This problem is under study by the Secretary of Labor.

The proceeds of the present Federal unemployment tax barely suffice to finance the administration of the Federal-State employment security system as it stands today. Steps should be taken to provide additional funds for administration as the system expands and also to rebuild the Federal Unemployment Account which is virtually exhausted.

Amendments are needed to remedy serious defects in the legislation enacted in 1958 to protect the interests of the Nation's working men and women in private pension and welfare plans, under which funds amounting to more than \$30 billion have been accumulated. Corrective legislation was proposed in the last session of the Congress to allow the Secretary of Labor to make necessary interpretations of the law and to enforce compliance. The proposal also contained provisions necessary to deal with such crimes as bribery and embezzlement. Both of these amendments are again recommended to the Congress.

The Congress is again requested to extend the coverage of the Fair Labor Standards Act to several million workers not now receiving its protection. While such a law does not deal with the fundamental causes of low incomes, it may help safeguard the economic interests of workers at the fringes of competitive labor markets.

To enhance the progress being made toward equalizing economic opportunity for all citizens, certain legislative improvements are required in programs that lie within Federal jurisdiction. Favorable consideration is again requested for legislation to revise the outmoded provisions of the 8-hour laws applying to Federal and certain federally assisted construction projects, and to carry out the principle of equal pay for equal work without discrimination because of sex. The Congress should also establish a statutory commission on equal job opportunities under Government contracts.

Efforts to reduce the hardship and loss occasioned by occupational accidents, which amount to nearly 2 million each year, should be intensified by employers and by State and local governments. Where necessary, the States should improve workmen's compensation systems with respect to benefits, administration, and provision for rehabilitation.

Nearly 14 million persons are currently receiving benefits under the Federal program of old-age, survivors, and disability insurance, compared with 12.4 million at the end of 1958 and 11.1 million at the end of 1957. Old-age benefits exceed \$112 per month, on the average, for a retired worker and his wife; aggregate benefits amounted to \$10.3 billion in 1959,

compared with \$8.6 billion in 1958. The liberalization of benefit amounts in 1958 and an increase in the number of beneficiaries caused the rapid rise in total benefit payments. The provision of benefits for permanently disabled workers and their dependents, which became effective in 1957, has added more than 400,000 persons to the rolls. The average monthly benefit for a disabled person exceeded \$88 in 1959. The public assistance programs, to which the Federal Government now contributes more than \$1.8 billion of the funds expended annually, distributed more than \$3.6 billion to needy persons in the fiscal year 1959, compared with \$3.3 billion in 1958.

Programs designed to return handicapped persons to remunerative employment are administered by all States. The Federal Government supports State programs with grants averaging about 60 percent of total State agency expenditures. Federal grants in support of rehabilitation and rehabilitation research and training totaled \$58 million in the fiscal year 1959. In that year, 81,000 persons were rehabilitated, compared with less than 56,000 in 1954 and the long-range objective of at least 200,000 persons annually.

AREA ASSISTANCE

Although the number of labor market areas in the United States with a substantial surplus of labor beyond current requirements has been reduced significantly as economic activity has expanded, many communities continue to suffer from substantial and persistent unemployment. Assistance to these communities is available through a number of Federal agencies, whose activities in this connection are coordinated through an interdepartmental Committee To Coordinate Federal Urban Area Assistance Programs, as well as from State and local groups. In 1959, the Office of Area Development of the Department of Commerce, which carries the principal responsibility for providing Federal assistance, aided an increasing number of area development groups in their efforts to strengthen the economic bases of their communities. Technical assistance furnished by the Office included counseling on methods used by various communities to solve their development problems, on community industrial foundations and industrial parks, and on State and local financing plans for promoting economic development.

The Department of Labor aids community organizations in connection with manpower aspects of economic development and with on-the-job training. Financial assistance to business concerns is furnished through the Small Business Administration. The "set-asides" of defense contracts for concerns located in areas of substantial labor surplus help to bolster economic activity in particular communities.

Legislation is needed, however, to supplement and strengthen these efforts to help areas of persistent unemployment create new job opportunities. Such legislation should stimulate and complement the efforts of communities to help themselves, should promote maximum participation by private

financial institutions and by State and local agencies, should encourage the creation of new job opportunities rather than the mere transference of jobs from one area of the country to another, and should encompass technical aid for the economic diversification of rural low-income areas and single-industry communities.

A recommendation has already been made to the Congress for a program that meets these specifications. It would provide for Federal participation in loans to business concerns, for financial assistance to State and local development groups, and for technical assistance to local groups seeking to strengthen their regional economies.

HOUSING AND HOME FINANCING

The past year was an exceptionally active one in the home building and home financing industries. Some 1,340,000 new private dwelling units were started, of which 440,000 were financed under mortgages either insured or guaranteed by the Federal Government. The funds that flowed into this use in 1959 are estimated at \$15 billion, a record amount, despite the increasingly intensive competition of other financing requirements.

The role of the Federal Government in home financing has assumed great importance—in terms of the impact on housing and home financing markets and in respect of the burden on the Federal budget. Thus, the Federal National Mortgage Association now holds a portfolio of \$5.6 billion of mortgages and utilizes \$2.7 billion of Treasury funds for this purpose. Under the Urban Renewal Program, nearly \$250 million has already been paid out in grants as the Federal share of clearing city areas for redevelopment, and some \$1.1 billion of additional funds will ultimately be paid to the cities under existing contracts and reservations of funds. Nearly \$675 million has already been paid out under the public housing program in annual contributions to local housing authorities; and the Federal Government is obligated to make annual contributions for the next several decades to repay \$3.5 billion of outstanding indebtedness, together with interest, under contracts for projects completed or under construction. Loans of about \$700 million have been disbursed to colleges and universities under the college housing program, and about \$460 million of commitments and reservations for additional loans are outstanding. The Veterans Administration has employed \$1 billion of Treasury funds for direct loans to veterans for the purchase of homes.

Under present law, the Federal Housing Administration's program for the insurance of home improvement and modernization loans will expire on October 1, 1960, unless extended. This program, under which some \$12.4 billion of loans have been insured since its inception in 1934, should be made permanent. Also, the present ceiling on VA interest rates is again restricting the ability of veterans to avail themselves of this form of home-purchase financing. The Congress should accordingly place this

program on the same basis, with respect to maximum interest rate requirements, as FHA programs. The maximum permissible interest rate on armed service housing loans insured by FHA should also be adjusted to permit such loans to be made at rates above the present 4½ percent ceiling.

FOREIGN ECONOMIC RELATIONS

Stronger efforts must be made at this time to expand United States exports of goods and services. Fiscal and monetary policies designed to restrain inflation provide a solid basis for such efforts, but more needs to be done to strengthen the competitive position of our exports. In this connection, the Federal Government should encourage intensified use of Department of Commerce facilities for disseminating foreign trade information to exporters and potential foreign buyers of American products; strengthen the commercial activities of our Foreign Service; increase the number of our trade missions to other countries; and arrange for more extensive United States participation in trade fairs abroad.

These steps should make more effective the efforts of private businesses to increase foreign sales. Expansion of exports should be a major aim of American business in the coming year. To take full advantage of expanding market opportunities abroad, businessmen will have to price competitively, sell aggressively, adapt and design products to meet the needs of foreign buyers, and offer adequate credit and service facilities.

Markets for United States products were significantly expanded last year, particularly toward the end of the year, by the reduction of quantitative restrictions on dollar imports by many of our trading partners abroad, as described in Chapter 2 of this Report. The United States intends to continue encouraging the removal of remaining restrictions on imports from the dollar area. These efforts, which are expected to result in a further expansion of United States export opportunities, will be made in such international forums as the General Agreement on Tariffs and Trade and the International Monetary Fund, as well as through bilateral consultations with foreign governments.

It is hoped that the industrial countries, consonant with their growing financial ability, will increase their long-term lending to less developed countries, and this subject is being actively discussed with the governments concerned. For its part, the United States will continue vigorously with its plans to aid the economic growth of less developed countries. The efforts of many of these countries have already been fruitful, and the groundwork is being laid for more rapid advances in the future. In many instances, however, the level of living in the less developed countries remains very low.

The efforts of the United States to aid less developed countries to improve their productivity and level of living will be channeled through institutions that have served in the past, including both the Development Loan Fund and the Export-Import Bank (which has just observed its twenty-

fifth anniversary), and through appropriate new institutions. The Inter-American Development Bank, which came into existence late last year, will begin operations shortly. This institution, which brings together the United States and the countries of Latin America, manifests the enduring interest that the United States has in the economic progress of its neighbors.

The formation of the International Development Association will also be pursued actively during the year. It is expected that funds for the initial United States subscription will be requested during the year.

FEDERAL STATISTICS

Significant steps have been taken in recent years to achieve an improved and better integrated program of Federal statistics on the Nation's economy. Important additional improvements are proposed for the coming fiscal year.

The 1961 budget for current statistical programs provides for a net increase of about \$2.5 million over 1960 appropriations. This increased appropriation would make it possible (1) to provide better crop and livestock estimates, based on experimental work previously undertaken, (2) to improve retail trade statistics, (3) to initiate a monthly survey of the service trades and a quarterly survey of State and local government finances, and (4) to carry forward work initiated this year, within the framework of the national income and product accounts, for a table of interindustry purchases and sales and for real output estimates by major industries.

In the area of social statistics, provision is made for obtaining data from health examinations of a scientifically selected random sample of the population, as part of the national health survey program initiated in 1957. Improvements in statistics on education and on marriages and divorces are also planned.

Provision is also made for the continuation of work on the periodic censuses and on the five-year project to revise the consumer price index. The 1961 budget recommends funds for tabulating and processing economic and demographic data collected through the 18th Decennial Census, and for final publication of the results of the 1958 Censuses of Business, Manufactures, and Mineral Industries. The major appropriations for these censuses were made last year. Funds are also included for preparatory work on the 1962 Census of Governments.

A consumer expenditure survey will be undertaken as an integral part of the revision of the consumer price index. This index, along with additional needs for price information, is being studied by a Price Statistics Review Committee, which will make recommendations concerning these programs by October 1960.

Improvements are also being made in the statistics on wages and salaries for different occupations and in different industries and labor markets; on fringe benefit costs; and on current wage rate changes.

COMBINING PRIVATE ACTIONS WITH PUBLIC POLICIES

This chapter has presented the major legislative proposals of a 1960 program to supplement and reinforce existing Federal laws that contribute to our Nation's capacity for inflation-free economic growth. In accordance with the language and the spirit of the Employment Act, this program acknowledges that the State and local governments and the private sector of the economy have vital roles to play in the achievement of such growth. Indeed, in the present economic circumstances, when opportunities for vigorous expansion are abundantly evident, these roles should be encouraged to the fullest extent, while the Federal role should become more restrained.

The current economic setting is favorable for the enactment of proposals of long-run significance for sound growth and greater well-being. Accordingly, the 1960 program looks to a modification of farm programs and includes proposals for enhancing the competitive character of our economy, for improving the effectiveness of various Federal lending and loan insurance programs, for extending and strengthening present provisions for personal security and welfare, for helping to provide new job opportunities in areas with high and persistent unemployment, and for establishing a new international agency to assist the less developed countries of the free world.

At the present time, the Federal Government could make its greatest contribution to inflation-free economic growth through financial policies that help create an environment favorable to the exercise of maximum private initiative. The major step in creating such an environment would be the achievement of the recommended budget surplus for debt retirement in the fiscal year 1961. The effectiveness of this policy would be heightened by removal of the interest rate limitations that currently inhibit the noninflationary management of the Federal debt. Following the budget balance now in prospect for the fiscal year 1960, and complemented by the policies of the independent Federal Reserve System, these elements of the 1960 program would make important contributions to sustainable economic growth.

Fiscal and monetary policies gain strength from each other and are powerful instruments for preventing the development of inflationary pressures which can endanger the healthy growth of our economy. But there is need to supplement these Government policies with appropriate private actions, especially those affecting profits and wages. Our markets must be sufficiently flexible to allow downward as well as upward adjustments in individual prices if we are to achieve greater stability in the general level of prices. Achievement of this desirable result is unlikely unless the national average of increases in wage and salary rates and related labor benefits remains within the limits of national productivity gains. Under such a standard, price reductions in sectors of the economy where productivity is advancing especially rapidly would offset increases that might be warranted elsewhere.

The general wage-productivity-price relationship emphasizes the importance of private actions favorable to the acceleration of productivity gains. The achievement of widely shared and sustainable increases in economic rewards, without inflation, must rest on a solid foundation of productivity advance. Accordingly, it is important for management and labor to cooperate for more complete attainment of the productivity potentials afforded by continuing technological progress.

In our free economy and under our system of shared responsibility, we do not rely on Government alone for the achievement of inflation-free economic growth. On the contrary, the attainment of this objective requires a blending of suitable public policies and private actions, both of which rest upon an informed public opinion. To enhance public awareness of the damage that could be done by inflation and to support Government's efforts to restrain inflationary forces, the Congress should amend the Employment Act of 1946 to make reasonable price stability an explicit goal of national economic policy. Although this goal may already be implied in the declared objectives of the Act, such an amendment would express more firmly our national determination to curb inflation. The amendment that has been proposed by the Administration is limited to a change in the language of the Act's declaration of policy. Such an amendment would help accomplish the desired purpose without causing changes in our economic institutions that might be inimical to the freedoms we now enjoy.