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1957 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE

ON THE

JANUARY 1957 ECONOMIC REPORT OF THE PRESIDENT

WITH

SUPPLEMENTAL AND DISSENTING VIEWS

AND THE

ECONOMIC OUTLOOK FOR 1957 AND OTHER MATERIALS PREPARED BY THE COMMITTEE STAFF

85TH CONG., 1ST SESS.

FEBRUARY 28, 1957.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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JOINT ECONOMIC COMMITTEE

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February 28, 1957—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. PATMAN, from the Joint Economic Committee, submitted the following

REPORT

REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1957 ECONOMIC REPORT OF THE PRESIDENT [1]

INTRODUCTION

America today is prosperous, with employment, production, and purchasing power at record levels. A wide range of economic indicators suggests that we can achieve continuing growth of the economy in the year ahead.

The dynamic forces underlying the American economy, however, must be expected to present constantly changing challenges for private and public policies.

Our experience over the past decade under the Employment Act of 1946 demonstrates the ability of the Nation to adjust to dramatic shifts in circumstances, such as those presented by the Korean war, and the recessions of 1949 and 1954.

A different and in some respects more difficult challenge is posed by less spectacular developments, such as those of the past year during which divergent trends throughout the economy tended to obscure changes in the overall level of activity. The Federal Government in such circumstances carries a great responsibility for formulating and carrying out policies which will give the maximum opportunity for the free play of private incentives basic to the growth of our enterprise economy, while maintaining stability in the price level.

[1] Senator Fulbright was not able to participate in the hearings and in the writing of this report because of other pressing duties.

The challenge for 1957, as in recent years, originates principally in the conflict between the free world and the Communist bloc countries. So long as the threat of Communist aggression persists, this Nation must commit a significant proportion of its resources to military defense and related national security. As this committee has consistently and unanimously maintained, the Nation can assume this burden imposed from abroad and still provide for expansion of our capacity to produce the goods and services demanded by a growing population seeking improved living standards.

Adjustments in the growth of employment, production, and purchasing power to rates consistent with a stable price level must be continually made in our dynamic economy. Without being complacent about the difficulties which may sometimes be imposed by such adjustments, we are nevertheless confident that with appropriate use of the Employment Act machinery, the United States will meet such challenges in the future as successfully as it has in the past.

The committee has benefited greatly from the cooperation of the Council of Economic Advisers in their testimony during the committee's hearings.[2] The discussion was of material assistance in elaborating the abbreviated discussion of the economic outlook contained in the Economic Report of the President. The issues for economic policy in 1957 posed in the President's report were ably discussed in the testimony of administration officials, the Chairman of the Board of Governors of the Federal Reserve System, and nongovernmental experts of varying views (Hearings on the January 1957 Economic Report of the President, before the Joint Economic Committee, 85th Cong., 1st sess.).

The committee appreciates the action of the last Congress in amending the Employment Act to provide that the President's report is to be filed not later than January 20, and to change the committee's name to the "Joint Economic Committee."

The committee finds important points upon which it agrees with respect to the problems and policies suggested by economic prospects for the months ahead, despite individual differences in viewpoint as to details, timing, and emphasis.

FINDINGS AND RECOMMENDATIONS

1. The American economy in 1956 reached record heights with respect to employment, production, and purchasing power.[3] The principal impetus for this growth came from a $6.2 billion increase in business expenditures for new plant and equipment, which totaled $34.9 billion for the year. Rising consumer outlays also made a major contribution to the expansion of total demand despite the decline in passenger-car sales from 7.4 million in 1955 to 5.9 million in 1956 and a

[2] Senator WATKINS. For the reasons which I discussed in detail in my minority views to the majority report of last year, I still have reservations as to the desirability of having the Council testify before a committee of the Congress. In those views it was urged that the job of defending the economic policies contained in the President's Report belong to the Cabinet as principal line officers, not to the Council, a staff agency. I am pleased therefore that the committee took cognizance of the fact that "the issues for economic policy in 1957 posed in the President's Report were ably discussed in the testimony of administration officials. * * *"

[3] Senator WATKINS. This statement seems to imply that the stated objectives of maximum employment, production, and purchasing power contained in the Employment Act of 1946 were realized by the economy in 1956. Again this year, a major short-coming of the committee report is its failure to make such an appraisal. For this reason, I again feel obligated to undertake this task. The appraisal is to be found in my supplemental views (pp. 23-32).

fall in new nonfarm housing starts from 1.3 million to 1.1 million units. This experience offers additional evidence that an economy as large and as diversified as that of the United States can adjust to significant shifts in demand and in production without an overall setback.

2. Economic expansion in 1956 was accompanied by widespread price increases. Of the 5.5 percent increase in gross national product, 2.8 percentage points were accounted for by rising prices. The price increases gained momentum during the latter part of the year.

3. The current outlook for 1957 is for further increases in employment, production, and purchasing power with no general easing of pressures toward further cost and price increases. This outlook is implicit in the President's report and materials furnished by various executive branch agencies, and witnesses at the committee hearings. The committee staff estimates a gross national product of about $435 billion, measured in beginning-1957 prices, on the basis of this outlook. The Council of Economic Advisers has indicated that this level of output for the year would meet the objectives of the Employment Act.

4. The economic outlook may change rapidly in our dynamic economy. Rising construction and interest costs and declining liquidity may prevent realization of present business plans for capital replacement and expansion. The same factors may have an adverse effect on State and local government expenditures for public works. Consumer outlays may not rise as much as recent surveys indicate. As in past years, therefore, the Subcommittee on Economic Stabilization will follow economic developments in the coming months for indications which suggest the occasion for modification of stabilization policies.

5. Developments in 1956 and current prospects for 1957 bring into focus the problem of maintaining stability of the general level of prices during periods of full employment. To curb general price increases, the rate of expansion of total spending must be held down to the rate of increase in real output. Otherwise, intensive bidding for resources and goods will drive up cost and price structures throughout the economy. Such restraints, however, may in the short run retard the rate of expansion in employment and production.[4]

It is important that the character of the restraints be such as not to impair our ability or incentives for adding to our stock of resources over the long run.

6. On the basis of present prospects for the Nation's economy in 1957, the committee believes that restraints upon total demand should be maintained. We therefore endorse the President's recommendation that tax rates be continued at their present levels.[5] The hoped-for budget surplus, in fact, is based on extension of these rates. Such a surplus, if achieved, will contribute modestly to controlling inflation. General tax reduction at this time would impose excessive burdens on

[4] Chairman PATMAN. I would emphasize programs for economic expansion rather than restraints as a curb on inflation.

[5] Representative CURTIS. I raise the question whether tax rates in many instances are not beyond the point of diminishing returns. Where tax collection is based upon the voluntary cooperation of the citizens, as ours presently still is, the continuance of high tax rates over a period of time produces an erosion that increases in amount yearly. It is entirely possible that a reduction in many of our tax rates might produce increased revenues. The failure of the executive branch to give serious thought to these possibilities is quite disturbing to me.

monetary controls for curbing inflationary pressures.[6] If, under the present circumstances, substantial reductions in budget expenditures can be made, the question of general tax and debt reduction should be reopened.[7]

The Congress, however, should not defer tax revision until budgetary and economic conditions permit general tax reduction. Improvements in the Federal revenue system are always desirable. The report of our Subcommittee on Tax Policy pointed out the important effects of the Federal tax structure on automatic cushioning of fluctuations in levels of economic activity, the efficiency in use of resources, the relative flow of consumption and investment expenditures, and the position of small and new businesses.

In the light of recent developments, the committee believes there is compelling reason for the tax-writing committees of the Congress to develop, during the current session, a program for adjusting the tax burdens on new and small businesses. The object of these adjustments should be to provide greater opportunity for such businesses to participate more fully in the general growth and prosperity of the economy. Proposals by the President and by the Small Business Committees of the House and Senate should be given careful consideration in the development of this program. Such consideration should bear in mind present budgetary requirements.

7. The President's report does not afford an adequate discussion of the impact of recent changes in the Federal tax system on the Nation's economic development. The tax-writing committees of the Congress, of course, have primary responsibility for reviewing the effects of tax provisions. The President's economic reports, however, should provide data on and appraisal of Federal tax policy as it affects our economic development. For example, the present economic report might well have provided information about the effects of the 1954 code provisions with respect to depreciation and the treatment of dividends received by individuals on the amount of private investment and the financing methods used during 1955 and 1956.

8. The Federal Government, in the present circumstances, can contribute toward easing the necessity for restraints by exercising the utmost economy in its own spending programs. We agree with the President's statement that the Federal Government must provide the services which the American people demand of it.[8] But the Government can best discharge this obligation by rigorously appraising all of its present and proposed expenditures so as to eliminate waste and make certain that these expenditures properly reflect the priorities accorded by the Nation as a whole to various services and functions.

The committee believes that the Federal Government should exercise leadership in contributing to economic stability by substantially reducing public-works expenditures now. Expenditures which can be deferred economically would be better made when inflationary pressures lessen.

[6] Representative CURTIS. This may be true if the term "general tax" reduction is taken to mean the opposite of selective tax rate reductions. However, if it is taken also to mean, as I suspect it is intended to mean, any sizable group of selective tax rate reductions then I disagree. The "tight money" situation lies in the area of investment capital rather than consumer capital and selective tax reductions which might increase the amount of investment capital available could ease inflationary pressures rather than "impose excessive burdens."

[7] Chairman PATMAN. Present national policies should give a higher priority to making payments, however modest, upon the national debt than to general tax reduction. Feeling as I do that fiscal policy deserves greater emphasis in controlling inflationary forces, I deplore the fact that neither the President's Report nor our committee's report is specific or articulate in putting forward a concrete program for debt retirement.

[8] Representative CURTIS. I would add, "and are proper under our constitutional form of government."

One standard for appraising proposed expenditures is the extent to which they eliminate barriers to growth and development in the private sectors of the economy. Thus, investment of public funds at the present time in a program of assistance for public school construction will return substantial dividends. The benefits are improved intellectual and cultural standards and, even more directly, greater assurance of an adequate supply of the technical competence and skills demanded in an economy oriented to rapid technological advances. Similarly, Federal funds contributing to a sound program for water resource use may significantly enhance prospects for productivity increases and economies in a wide range of industrial and agricultural activities.[9]

The costs of these programs must be weighed against their prospective benefits to determine whether they should be undertaken now and at how rapid a rate.[10] Capital programs of Government which do not measure up to this "contribution test" should be screened out of the budget.

Attention should be given to proposals for deferring enactment of any single appropriation until consideration has been given to all proposed appropriations taken together. This procedure might facilitate control over total spending in the light of expected revenues and economic conditions. It might also better assure the most effective use of the Government's financial resources in the light of the Nation's priorities among public activities.

The Subcommittee on Fiscal Policy will consider a study of Federal expenditure programs. This study would examine the impact of public expenditures in counteracting fluctuations in the level of economic activity. It would be concerned with standards for public expenditures to promote overall economic growth in the long run. The subcommittee will also pursue the committee's interest in the broad aspects of Federal tax policy as it affects economic growth and stability.

9. The long-range implications of rapid population growth focus attention on the financial capacity of State and local governments to meet expanding demands for public services. The Federal Government may at times have to assume a larger than traditional role if these demands are to be fully and promptly met.[11] For the long run, however, we ought to look for ways in which the present financial limitations of State and local governments may be overcome without an ever-increasing recourse to Federal aid.

As the President's report points out, the States and localities can do much to improve their financial systems and adapt them to the

[9] Senator WATKINS. I am glad to see the committee recognize that water-resource developments are superior in rank among necessary Federal expenditures during periods of full employment and upward price level movements because they significantly enhance prospects for increased productivity. This can be well substantiated by a discussion of the economic significance of projects of that type. An extremely fine example is provided in the Colorado River storage project, a comprehensive development in a four-state, semiarid region larger than New England. It was authorized by the 84th Congress and construction is just getting underway. I shall discuss in my supplemental views the economics of sound water-resource development, not only because of its pertinence in view of the committee's comments, but also because much unsound and irresponsible criticism has been directed against water-resource development in recent months.

[10] Senator FLANDERS. The accumulating load of Colorado River development, seaway and power construction, Niagara Power, the public housing program, military construction, financing of public buildings, and the great new highway program is putting heavy burdens on the supply of personnel, equipment and materials for construction. Unless we cut down our program inflation here is inevitable.

[11] Representative CURTIS. The Federal Government, through the imposition of the tax of inflation to finance World War II, has contributed a great deal to the financial incapacity of State and local governments to meet the demands placed upon them. The Federal Government would perform its best service if it would devote its efforts to preserving the stability of the dollar and in other ways leave alone the revenue sources available to the States and local governments. Instead of enlarging the Federal Government's role it would help immeasurably if its present role could be reduced to its "traditional role." The Federal Government's record of spending in the areas of traditional local and State matters does not compare favorably in efficiency with that of the local and State governments.

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increasing demands placed upon them. In addition, some redistribution of tax sources among the Federal Government, the States and localities may be required. As noted in the report of the Tax Policy Subcommittee a year ago, it is important that such shifts do not adversely affect the fairness of the combined Federal, State and local tax structure, nor its responsiveness to changing economic circumstances. The prospects for steady economic growth are tied not only to the total burden of taxes, but to the shape of the tax system itself.[12]

10. Hearings held during 1956 by the committee's Subcommittee on Economic Stabilization raised a number of questions with respect to the effectiveness of general credit controls in curbing inflation. The committee shares the President's concern over the uneven impact of monetary restraints, particularly as they affect school construction, residential construction, and the growth potentials of new and small businesses. The committee therefore urges a careful inquiry into the operation of the Nation's credit mechanisms and the institutional factors which determine the effectiveness of credit control. This study should give particular emphasis to the incidence of general credit controls and the manner in which the impact and burden of restraints may affect the attainment of continuing social and economic objectives, such as rising standards of educational and public health services and the encouragement of a vigorous and expanding small business population.[13]

Pioneer studies by our subcommittees in 1949–50 and 1951–52 contributed to widespread appreciation of the usefulness and limitations of monetary controls. The study which we now suggest should provide welcome and needed extension of our understanding in this important area of public policy.

11. We have given some study to the President's recommendation that leaders of business and labor assume greater responsibility in price policies and wage agreements for maintaining a stable dollar. This recommendation is in keeping with the declaration of policy of the Employment Act, which calls for cooperation of all public and private groups in seeking to achieve the objectives of the act.

The President's recommendation stems from the caution expressed in the Economic Report that exclusive reliance on monetary and fiscal restraints to prevent rising prices raises serious obstacles to economic growth and stability. The testimony of several witnesses, including that of the Chairman of the Federal Reserve Board, however, questions this assumption.

It was pointed out during the hearings that this recommendation might frequently conflict with business and labor policies for obtaining

[12] Senator WATKINS. It is not just long-range implications of rapid population growth which place strain upon the financial capacity of State and local governments. Continuing assumption by the Federal Government of traditional local functions and corresponding shrinkage of local tax bases also impose difficulties upon State and local governments. Reduction and/or limitation of Federal activities in areas of traditional local responsibility are essential to the growth of responsible and effective local government. Such a redistribution of function should serve to reduce Federal revenue requirements and correspondingly increase the financial capacity of State and local governments.

[13] Chairman PATMAN. The concern which the committee report expresses over the uneven impact of present monetary restraints is certainly well taken. I would go even further. My impression is that we are today giving an exaggerated importance to monetary and credit powers of the Federal Reserve as instruments which can guarantee us stability and growth. Restrictive monetary policy, which makes for higher interest rates and adds to costs throughout the economy, carries with it a real risk of instability and stunted growth in the long run. The past year has, moreover, demonstrated its ineffectiveness in dampening a boom in plant and equipment expenditures. It has meanwhile proven all too effective in making credit unduly scarce and costly to small businesses, in curtailing efforts to improve the Nation's housing and to provide desperately needed public services, of which schools are perhaps the most conspicuous example. In short, the emphasis of recent years on monetary policy as a prime instrument in assuring stability gives danger of falling into an easy pattern of making high interest rates and tight credit a permanent habit in the United States.

the greatest gains from the use of available resources, the impetus upon which the successful operation of a free-enterprise economy depends.[14] In addition, it was suggested that carrying out this recommendation this year would involve widespread revision of existing wage contracts.

Numerous witnesses during the hearings referred to the most serious limitation on this proposal—the omission of workable machinery and standards which business and labor leaders might effectively use in accepting responsibility for maintaining a stable price level. We call to the President's attention the need for implementing this proposal if it is to be effective.

Exploratory study of this problem by the committee and staff during the past year suggests that carrying out the President's proposal will require, at a minimum, up-to-date and integrated statistics which show relationships among productivity, prices, wages, profits and other incomes. This involves bringing together data already available in or obtainable by Federal agencies. The executive branch should make these data, with interpretive analyses bearing directly on the problem of price stability, available as soon as possible. The committee considers the problem of achieving and maintaining price stability one of the most urgent facing the country in both the short and long run. It will follow developments in this area very closely during the coming months.

12. The committee endorses the President's recommendations for strengthening Federal antitrust policy and urges even more vigorous action, based on the studies and recommendations of committees of Congress, to meet the Employment Act's objectives in this area.

The problems of small and new businesses in securing necessary financial resources have been intensified in recent months by limited availability of credit. The Small Business Administration and the Federal Reserve banks (acting under the authority of sec. 13b of the Federal Reserve Act) should keep in mind that these authorities were enacted by the Congress for the express purpose of assuring small businesses, at all times, a fair share of the limited supply of funds available for investment.

13. The committee, like everyone else, welcomes the modest improvements in the agricultural sector of the economy in 1956. We agree, however, with the statement in the President's report "that full agricultural adjustment to peacetime conditions has not yet been accomplished." [15] The committee hopes that full adjustment will soon be achieved. Additional legislation may be necessary.[16] [17]

A subcommittee will be established to conduct an inquiry into current and prospective trends in agriculture, and the factors responsible for them, particularly as they bear on the growth and stability prospects for the economy as a whole. Among such items are popu-

[14] Senator WATKINS. The President's recommendation does not so much raise important questions with respect to the operation and effectiveness of the free-enterprise economy as it does to raise questions with respect to severe institutional interferences with the market mechanism which perhaps otherwise could more efficiently determine prices, incomes, and resource allocation. Implied rather is the need perhaps for more vigorous enforcement of the antitrust laws and other antimonopoly restraints which might better serve to produce prices, incomes, and resource allocations which a freer market mechanism would produce, if permitted to operate freely.

[15] Senator DOUGLAS. See my supplemental views for comment on this point (pp. 15–22).

[16] Chairman PATMAN. While this language does not necessarily approve or reject present agricultural programs, pending the proposed committee study, I for one am certain that major revisions in present policies are required.

[17] Senator WATKINS. Yet to be developed are effective adjustment programs for the producers of nonbasic commodities such as beef cattle, poultry and eggs, and turkey and dairy products in drought and deficit feed producing areas. Present programs compound rather than cure the economic difficulties such producers face. It is to be hoped that the new subcommittee on agricultural policy will pay particular attention to the economic problem which price and income support programs on the so-called basic commodities have created or aggravated for farmers in areas where such crops do not dominate agriculture.

lation and industry movements into and from farm areas, productivity and costs of farm operation, and present and prospective levels and composition of demand for farm products.

Studies made earlier by our Subcommittee on Low-Income Families have already called attention to the special problems and underemployment among low-income families in the agricultural sector of the economy. These studies contributed materially to the setting up of the present rural development program. Additional efforts to cope with these problems are included in a number of current legislative proposals. The new Subcommittee on Agricultural Policy will accordingly concentrate its study on commercial farming operations, i. e., on areas represented by the 35 percent of farm operators who produce about 85 percent of marketed farm products.

14. The committee calls attention to the possibility that international developments, particularly in the Mideast, may have significant implications for the domestic economy. The Executive Branch and the Congress should be alert to such implications in the coming months.

As the committee indicated last year, the struggle against Communist ideology has become increasingly a test of economic strength. The Foreign Economic Policy Subcommittee is completing a study of the resources which the Soviet Union and the United States can bring to bear in this test.

However remote prospects may appear to be at the present, the state of world affairs which would permit substantial disarmament is a major objective of our foreign policy. The broad economic implications of disarmament were examined in a staff paper published last year (World Economic Growth and Competition, Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, 84th Cong., 2d sess., pp. 163–170). The Foreign Economic Policy Subcommittee will continue its interest in this subject, as well as other foreign economic developments which might affect achievement of Employment Act objectives.

15. We believe that housing standards for all of the people must keep pace with overall economic growth and that major fluctuations in the housing industry may increase the problems of maintaining economic stability. Housing starts in 1956 were 208,000 below 1955. The present prospect is a further decline of about 100,000 units in 1957. In addition, there is reason to believe that private residential construction within the means of low- and medium-income families declined more rapidly than total home building and will continue to do so. These developments raise serious questions about the adequacy of current Government programs for promoting improvements in housing standards. We urge, therefore, determined efforts by the Administration and the Congress to develop better programs for promoting balanced advances in the Nation's housing.[18]

16. We urge the attention of the Congress to pending comprehensive measures for Federal aid to economically depressed industrial and rural areas, in line with a continuing recommendation of this committee. We are pleased to note the President's concern with

[18] Representatives CURTIS and KILBURN. We disagree with the tone and meaning of this paragraph. Thought might be given to whether the Federal Government ought not to embark upon a program of getting out of the housing industry rather than further in it. We are satisfied that an honest economic appraisal of the overall effects of the Federal Government's extensive participation in the housing field would reveal that this participation has done more harm than good in obtaining cheap and adequate housing for our people.

depressed industrial areas, but we urge equal attention to depressed rural areas.

The persistence of 19 major depressed local areas as of January 1957 is disturbing in an economy operating overall at high employment levels. We therefore emphasize our broad recommendations of prior years for effective programs to reduce the relative immobility of capital and labor resources which is basically responsible for pockets of persistent underemployment.[19]

17. We are pleased to note in the President's budget, again this year, recognition of the importance of additional economic statistics. We urge the Congress to give strong support to the budget proposals for funds to improve our sources of economic intelligence. The President's Economic Report clearly shows the dependence of the Federal Government upon these data in carrying forward the objectives of the Employment Act. The importance of reliable data as a basis for plans in the private sectors of the economy is evidenced by the organization during the past year of a Federal Statistics Users' Conference. Substantial efforts, therefore, should be made to close the present serious gaps in our inventory of economic statistics.

The committee's Subcommittee on Economic Statistics is directed to facilitate congressional action to improve Federal statistical programs. The subcommittee will pursue such inquiries and take such action as it deems appropriate on behalf of the committee.

The subcommittee is also directed to arrange for the preparation and distribution of a 1957 issue of the Historical and Descriptive Supplement to Economic Indicators.

18. *Committee budget.*—The legislative budget for fiscal year 1958 includes a figure of $143,360 for the Joint Economic Committee. This amount is approximately $13,000 less than the sum authorized for the committee by the Employment Act of 1946, as amended. It is not now anticipated that the studies planned for fiscal year 1958 will require any additional personnel; hence the committee is requesting the same appropriation that it has in fiscal 1957. The figure of $143,360, however, represents a minimum, and the committee herewith authorizes and instructs the Chairman and the Vice Chairman to advise the appropriations committees accordingly.

Committee Activities of the Past Year

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy. During the period January–March of 1956 the committee held hearings and prepared its report on the 1956 Economic Report of the President. In its report on the 1955 Economic Report of the President the committee directed five subcommittees to study several specific areas. These subcommittees were continued by the committee in 1956 and additional assignments were made to them. The work of the committee and its subcommittees during the past year is summarized below.

[19] Representative Curtis. The thoughts in paragraphs 1 and 2 are inconsistent. Most of the recommendations and all of the Federal programs actually put into effect to alleviate the problems in depressed industrial and rural areas tend to increase the immobility of labor and capital. This entire matter should be given real study, but not with any preconceived notion that what is required is action by the Federal Government. It may be that the studies will indicate certain things that the Federal Government can do to help. However, they might also indicate that the Federal Government doing anything might contribute to enlarging rather than minimizing these economic problems.

President's 1956 Economic Report

Hearings on the January 1956 Economic Report of the President provided an opportunity (1) for the Executive Branch to indicate the economic assumptions and reasoning underlying the President's economic program and to justify major economic recommendations; (2) for a limited number of outside experts to set forth their views on the President's economic analysis and program; (3) for the economic interest and research groups to submit their views. The committee's report on the President's report was transmitted to the Congress on March 1, the statutory deadline. The report included supplemental and minority views of committee members, and materials on the economic outlook for 1956 prepared by the committee staff. (S. Rept. No. 1606, 84th Cong., 2d sess.)

Subcommittee on Foreign Economic Policy

The Subcommittee on Foreign Economic Policy was composed of Representative Richard Bolling, chairman; Senator Paul H. Douglas, Senator J. W. Fulbright, Senator Ralph E. Flanders, and Representative Henry O. Talle.

In accordance with the instructions of the full committee (S. Rept. No. 1606, 84th Cong., 2d sess., p. 8) the subcommittee undertook two studies following up its general review of foreign economic policy principles in 1955. It developed more completely the relationships of foreign trade policy to national defense operation in a series of public hearings June 4 to 7, 1956. The subcommittee report on Defense Essentiality and Foreign Economic Policy with additional views of other members of the committee was released in July 1956 as Senate Report No. 2629, parts 1 and 2, 84th Congress, 2d session.

As its second study the subcommittee undertook a fresh look at comparative economic growth in various parts of the world. Hearings which were held December 10 to 14 on World Economic Growth and Competition, brought together in three panel discussions groups of highly qualified persons to discuss worldwide economic conditions and international rivalries. These hearings are to be followed by publication of a staff study which compares economic strength and growth trends in the Soviet Union with those in the United States. Materials prepared by the staff during 1956 on the Economic Consequences of Disarmament have been included in the hearings on World Economic Growth and Competition, pages 163–170.

Subcommittee on Economic Stabilization

The Subcommittee on Economic Stabilization was composed of Representative Wright Patman, chairman; Senator Joseph C. O'Mahoney, Senator Arthur V. Watkins, Representative Augustine B. Kelley, and Representative Jesse P. Wolcott.

The subcommittee, within the framework of its general responsibilities, conducted three hearings during the year. On June 12 a hearing was held on Conflicting Official Views on Monetary Policy: April 1956, at which the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System were asked to clarify the public record as to the consultations and differences of opinion in regard to the Federal Reserve action of April 13, 1956.

Additional hearings on Monetary Policy, 1955–56, were held on December 10 and 11. The first day was devoted to presentations by representatives of business and local government on the relationship of current monetary policies to the promotion of economic stability and growth. On the second day, these matters were discussed with the Chairman of the Board of Governors of the Federal Reserve System, the Vice Chairman of the Federal Open Market Committee and members of the Federal Open Market Committee.

The subcommittee continued its studies of automation begun in 1955 in hearings on Instrumentation and Automation, December 12 to 14, when businessmen and technical experts discussed the significance of these developments to the economy.

No reports were prepared on these individual hearings since it was the feeling of the subcommittee that the proceedings would be given consideration by the Joint Economic Committee in connection with its March 1 report.

Subcommittee on Low-Income Families

The Subcommittee on Low-Income Families was composed of Senator John Sparkman, chairman; Senator Ralph E. Flanders, and Representative Augustine B. Kelley.

During the second half of the 84th Congress individual members of the subcommittee participated in legislative discussions relating to problems of low income and distressed economic areas as various recommendations from the subcommittee's previous studies were incorporated in specific legislative proposals.

Subcommittee on Tax Policy

The Subcommittee on Tax Policy was composed of Representative Wilbur D. Mills, chairman; Senator Paul H. Douglas, Senator Joseph C. O'Mahoney, Senator Barry Goldwater, and Representative Thomas B. Curtis.

The subcommittee did not undertake any special studies during 1956 but individual members of the subcommittee presented the results of its previous studies in connection with legislative proposals and public discussions.

The subcommittee authorized a staff study of the taxation of personal holding companies. This study is being made, at no cost to the committee, by Prof. James K. Hall, department of economics, University of Washington, who was given sabbatical leave for this purpose.

A memorandum on "Implications of recent expansion of special amortization program," which was prepared for committee use by the staff, was made available for limited public distribution in mimeographed form on June 1, 1956, and was incorporated in the Committee Hearings on the 1957 Economic Report of the President (pp. 768–780).

Subcommittee on Economic Statistics

The Subcommittee on Economic Statistics was composed of Representative Richard Bolling, chairman; Senator John Sparkman, and Representative Henry O. Talle.

The subcommittee reviewed and made available for distribution a report submitted by the Office of Statistical Standards of the Bureau of the Budget dealing with the budgets for statistics and the progress made in implementing the recommendations of the five Federal Reserve consultant committees which were created at the request of the subcommittee in 1955. In accordance with instructions of the full committee (S. Rept. No. 1606, 84th Cong., 2d sess., p. 11) the subcommittee, through correspondence and personal consultation with members of the appropriations committees in the House and the Senate, attempted to assist in obtaining favorable action on the 1957 budget for economic statistics. On August 7, the chairman of the subcommittee released a mimeographed statement which summarized the status of the final appropriations for the Federal Government statistical programs. (See pp. 697–702, Joint Economic Committee Hearings on the 1957 Economic Report of the President.)

Other committee activities

Committee rules first adopted in 1955, after their preparation by a special Subcommittee on Rules, were readopted at the beginning of the 85th Congress by unanimous action of the full committee. A joint committee print is available containing these rules and the Employment Act of 1946, as amended, and related laws.

Public Law No. 591, approved June 18, 1956, amended the Employment Act of 1946 by changing the name of the "Joint Committee on the Economic Report" to "Joint Economic Committee" and by changing the time the President is to submit his economic report to the Congress to "not later than January 20 of each year." These amendments to the Employment Act of 1946 were introduced in the Senate by Senators Arthur V. Watkins, Ralph E. Flanders, and Barry Goldwater, and in the House by Representative Thomas B. Curtis.

Senate Joint Resolution 2, approved by the 85th Congress January 16, 1957, provided:

> That notwithstanding the provisions of section 3 (a) of the Employment Act of 1946, as amended [relating to the time for filing the economic report of the President], the economic report for the first regular session of the Eighty-fifth Congress shall be transmitted not later than January 23, 1957.

Committee and staff participation in meetings with outside groups.—Several members of the committee attended the 45th Annual Conference of the Interparliamentary Union at Bangkok, Thailand, November 15–22. Representative Talle, who was chairman of the 15-member American delegation, again proposed to the Committee on Economic and Financial Matters that an item dealing with the need for the examination and improvement of statistics be included on the agenda of next year's general session. His proposal was accepted and placed high on the committee's recommendations. It is hoped that the Council of the Interparliamentary Union will include economic statistics in the resolutions to be discussed at the annual conference in London next fall.

Two members of the staff participated in international meetings in 1956. During the period September 17–29 the executive director served as Chairman of the United States delegation to the Working Party on Economic Development and Planning of the United Nations Economic Commission for Asia and the Far East, at Bangkok, Thailand. He served on the Drafting Committee which prepared the final report of the Working Party. (See his report to the Secretary of State and to the members of the committee, pp. 780–789, Joint Economic Committee Hearings on the 1957 Economic Report of the President.) On his way to and from Bangkok, the executive director spent several days in Russia, the highlight of which was a 3-hour interview with the economists at the Soviet Academy of Sciences. (For a report of this interview, see Foreign Economic Policy Subcommittee Hearings on World Economic Growth and Competition, pp. 170–175.) The committee clerk, who is also the economist for the Subcommittee on Economic Statistics, was the American delegate to the Working Group on Short-Term Indicators of Economic Changes of the Conference of European Statisticians which met May 22–26 in Geneva, Switzerland. (See pp. 789–792, Joint Economic Committee Hearings on the 1957 Economic Report of the President.)

In addition to conducting formal studies and arranging hearings for the committee, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part during 1956: economic workshops and conferences at Harvard and Stanford Universities, New Jersey State Teachers College, Goucher College, Dartmouth College, and the Universities of Michigan, Pennsylvania, and West Virginia; school of banking conducted by the University of Wisconsin; investment banking seminar conducted by the University of Pennsylvania; the annual convention of the Association of Tax Administrators; annual sessions of the National Tax Association, National Council of Churches of Christ in America, Consumer Finance Association; American Economic Association, American Statistical Association, The Econometric Society, and the National Planning Association; the Midwest Forum; Columbus Town Meeting; conferences with groups of foreign economists brought here under the sponsorship of the State Department and the International Cooperation Administration; the annual seminar of the Prices and Cost of Living Division of the Bureau of Labor Statistics; seminars of the Industrial College of the Armed Forces; meetings of the Chicago and Washington chapters of the American Statistical Association; meetings of The Brookings Institution, New York Economists Council, and the Chamber of Commerce Committee on Business Statistics; and other meetings of business groups, civic organizations, and university classes.

Committee study of prices, wages, and profits.—In accordance with the program outlined in Senate Report No. 1606, 84th Congress, 2d session, page 13, the committee staff assembled a large amount of material on prices, wages, and profits. The staff conferred with many technicians within the Government and outside in attempting to evaluate the adequacy and limitations of these materials.

Committee publications.—During 1956 the Joint Economic Committee and its subcommittees issued 8 publications after hearing 85 invited witnesses and panel experts in 25 days. Nearly 65,000 single copies of committee publications were distributed to fill individual requests. Most of these publications are also available through the Superintendent of Documents. During the past year, individual sales and quantity orders of committee publications, current and past, have exceeded $18,000. This does not include the 6,261 paid subscriptions for the monthly publication Economic Indicators.

A checklist of committee publications will be found in the appendix of this report, pp. 61–66.

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SUPPLEMENTAL VIEWS OF SENATOR DOUGLAS

While in most respects it is possible to agree with the report of the committee, it is nonetheless true that substantial unanimity by the members of the committee can come about only by couching the report in language which is often obscure, or is designed to minimize differences, to create ambiguities, or to avoid controversy.

While unanimity is sometimes important it is also important in a political democracy that we should express differences of opinion about economic matters which actually exist. Otherwise the public remains uninformed, about the issues before the country, party lines and party responsibility are obscured, and the political environment suffers from the absence of criticism which is necessary in a functioning and vital democracy.

The limit to criticism is that it should be in good temper, done sincerely, and void of personal abuse of individuals as opposed to their public acts. In this day of "moderation" and competition for the "middle of the road" such responsible comment, unfortunately, is too often confused with irresponsible or destructive criticism.

Because of the nature of the report, the view that economic issues should be pointed up, and the fact that the Eisenhower administration has either adopted economic policies which are not in the interest of the public as a whole or has failed to act where action was necessary, the following points in the nature of a supplement to the committee report are made.

I

(1) While Secretary of the Treasury Humphrey and former President Herbert Hoover are unduly gloomy and pessimistic over the potential "hair curling" features of the present economic situation, there are some factors which bear close attention if we are to keep alert and prepared against possible future events.

The first of these is the fact of inflation. Until recently this has been obscured by the general stability of the price level. This was a result of compensating and widely divergent movements in the indices which made it up. Specifically, the huge increase in industrial prices was offset by a marked and disastrous decline in farm prices so that the stability in the general price level was more apparent than real.

In the last half of 1956 and continuing thus far into 1957, excessive demand for industrial products has been openly reflected in an increase in the general price indices. Therefore, the problem of price inflation can no longer be obscured for it is there for all to see.

The administration's pointing with pride at the San Francisco Convention, and throughout the last campaign that they had stopped "runaway inflation" is now seen to have been a shallow and opportunistic claim.

(2) A year ago the President was sufficiently concerned with the growing size of consumer debt to call for a study concerning the possi-

ble reimposition of direct controls. In 1955 consumer credit increased by $6.4 billion but it grew by only about one-half that amount in 1956 or by $3.2 billion. Although the repayment record has been sufficient to maintain the general quality of the outstanding credit, this should not obscure the marked decline in the rate of growth and the possible unstabilizing effect of changes in the rate of expansion of consumer credit. The dynamic and resilient nature of our economy should not lead us to ignore the strains which can come from these rapid shifts in pace.

(3) We should not ignore the amazing rise in stock market prices and the tremors which have followed that rise in recent months.

(4) Although our measures of industrial productivity leave something to be desired, it is disturbing to note, as the President's Economic Report is forced to do, that improvement in productivity in 1956 appears to have been substantially less than in 1955. Granting the deficiency of the data and speaking in broad terms, the materials of the staff of the committee indicate that the increase in 1956 employment above long-run trends was approximately offset by an output per man hour below normal expectations. (See President's report, p. 34, and pp. 57–58 of this report.) We can only hope that such a falling off of productivity will not continue and that more people will not be required to turn out the same amount of goods and services in the future.

(5) It is necessary to warn against a blind optimism that all of our major economic problems have been solved, that "built-in" stabilizers can "automatically" prevent maladjustments from becoming acute, and that cyclical problems are now only historical.

While it is true that much has been done to offset economic declines by way of unemployment insurance, social security, and fiscal and monetary policies properly applied, and while it is also true that the size of the defense budget alone is some hedge against disastrous recession, these facts, instruments and institutions are not omnipotent. As the economy has expanded and the price level has risen, the failure of social security and unemployment compensation payments to keep pace with the price level means that their potential countercyclical impact in times of recession has become proportionately less year by year.

The Federal budget too, because it is drawn up and items authorized from 12 to 18 months before expenditures are actually made, may not be flexible enough to work "automatically." The overall tax structure (Federal, State, and local) may not be as flexible an instrument as is sometimes thought. The progressive nature of the Federal income tax has been roughly offset by numerous loopholes and by the regressive features of the Federal excise system and of taxes at the State and local level.

Therefore, the blind optimism of a number of experts that we are in a "new economic era," the overtones of which are by no means absent from the President's report, must not be allowed to obscure economic facts for blind optimism can be as bad as the blind pessimism which it often fathers.

In this respect perhaps an unkind person would see some poetic justice in the petulant gloom and doom of Secretary Humphrey. As an articulate and bitter critic of Government spending he has now come forth with the largest peacetime budget in history. While the administration has often claimed to have cut Government expenditures, the truth is that during the last 4 years the public debt has risen from $266.8 billion on December 31, 1952, to $275.7 billion on February 15, 1957, or $8.9 billion above the figure when President Eisenhower took office. Expenditures have been from $20 to $25 billion per year higher than in any year during the Truman administration except when the Korean war expenses came due. Even when the expenses of that war are counted, the average yearly deficit through fiscal 1957 under President Eisenhower and Secretary Humphrey has been $200 million per year more than under President Truman whom the Republican orators and their sympathetic press labeled a "spendthrift."

Secretary Humphrey, who has often denounced those who warned against actual and existing economic facts for "destroying confidence" has now himself made statements concerning the possible effects of his own budget and administration policies which his political opponents would be called "prophets of doom and gloom" for making. And while he has approved this mammoth budget which, in large part, is his own responsibility, he has tried to pass the buck to Congress to cut it without specifying where it should be cut. Yet, as every one knows, one of the most powerful arguments for the approval of a specific expenditure is the fact that it has been approved in the budget.

In this respect neither the bland pronouncements that all was well during the 1953–54 recession nor the fears of a "hair curling" depression, should prevent the exercise of our critical functions. Things were neither as good as proclaimed in 1953–54 or as bad as the "pendulum swingers" point out in 1957.

(6) While this is not the place for a thorough analysis of the economy we need to cite the weak as well as the strong points in the situation. As the latter were so well covered by the President's report there is no need for repetition, but of the former it should be noted that in addition to the decline in the rate of growth of consumer credit, the stock market, the farm problem, declining productivity in 1956, and price inflation, that factory construction contract awards in the fourth quarter of 1956 were 30 percent below the corresponding period in 1955; that there was sagging employment on a seasonally adjusted basis in industries producing consumer goods and housing materials; that the number of housing units constructed has sharply declined; and that other sectors such as paper board production, machine tool orders, and television and appliance sales were lagging. Further, depressed areas still exist in the textile, coal mining, and former railroad shop communities.

II

The previous section dealt with existing facts. In this section we shall make a few points concerning specific policies which have led to some of these problems.

(1) The administration's farm policies apparently operate on the theory that lower prices will bring less production and therefore produce fewer surpluses. The facts seem to be in the opposite direction. In a number of products—corn, hogs, beef cattle, and whole milk, to name a few—production has increased as prices have declined or as support prices have been "flexed" downward.

Using 1947–49 as 100 for both production and prices for each of the following farm products, 1956 production and prices were as follows:

Product	1956 prices	1956 production
Corn	79	114
Hogs	66	110
Beef cattle	74	150
Whole milk	94	109

Source: Department of Agriculture.

When this has happened, the logic has been even more vigorously applied so that a cycle has been set up in which price supports are lowered, production increases, surpluses expand, prices are lowered again, production increases, and surpluses expand. This is continued even though the individual farmer grows more at lower prices in an attempt to sustain his gross receipts. The result has been an increase in surpluses during the Eisenhower administration of $5.7 billion in CCC loans and inventories, an 18 point drop in the parity ratio, a 15.7 percent decline in income per farm in 1956 prices, and a 19.8 percent decline in net farm income. The administration is now taking bows merely because in 1956 the farm situation did not get worse. Nonetheless, the policies have been disastrous to thousands of farmers and especially to those on smaller farms or who have attempted to begin farming in this period.

Assertions that the problem was a result of a transition from a "wartime" to a "peacetime" condition hardly square with the facts that from 1946 through the first half of 1950—peacetime years—the parity ratio, farm income, etc., remained high, and that the military expenditures in fiscal 1958 and preceding Eisenhower years are considerably above those in the 1946–50 period, and in fiscal 1958 only somewhat short of those at the very height of the Korean war.

In this field, policies have not only been wrong but disastrous for several million Americans. For some reason the administration seems completely unwilling to extend to our farm population the solicitous attitude it takes when asking for fast tax writeoffs for giant corporations, subsidies for the large airlines and shipbuilders, special privileges for the users of second and third class mail, dividend tax credits for the well to do, and special grants to the privately owned utilities in the Tennessee Valley and on the Snake River.

(2) The rise in industrial prices could have been restrained to a considerable degree by vigorous prosecution of the antitrust laws, the prevention of the vast number of corporate mergers, and by tax and monetary policies which were more equitable in their application.

(3) The divergent trends in prices in recent years raise serious questions as to the ability of restraining credit through monetary policies alone.

Inflation is now a fact. Therefore, there is wisdom and desirability in a general monetary policy of restraint. In view of existing conditions, however, the authorities must be prepared to ease or reverse such general policies quickly should the need arise. Some comments about past policies and methods do not seem out of place.

In the early period of the administration, policies were inconsistent. There was general and specific price stability from March 1951 through the end of 1952 when the Eisenhower administration took over.

There was no inflation. Yet, in early 1953 the rediscount rate was raised in an effort to tighten the money supply. From December 1952 to May of 1953 the policies of the monetary authorities reduced Reserve Bank credit by some $800 million in order to prick the "bubble on the boom." Commercial banks meanwhile reduced their loans and investments by $3.5 billions. At the same time Secretary of the Treasury Humphrey introduced a policy of higher interest rates for Government bonds in order to stop a nonexistent inflationary situation.

But even while "deflationary" policies were being applied to stop this nonexistent inflation, the monetary authorities reduced the margin requirements for stock purchases from 75 percent to 50 percent. Therefore, an investor with $7,500 to invest could then buy $15,000 worth of stock, half down and half on credit, rather than $10,000 or three-fourths down and one-fourth on credit.

Therefore, at the same time the authorities were fighting a nonexistent inflation by restricting bank credit and raising interest rates, they pursued a policy of easing credit for purposes of stock purchases. This policy may not have been entirely to blame for the 1953–54 recession but it certainly did not help matters, and the divergent trends which have, in part, continued to date were set in motion by these acts.

At the moment, inflation is the general problem. Restrictive credit policies are in order. But these restrictive policies have fallen unevenly on different sectors of the economy. It was something of a shock to be told by the Chairman of the Board of Governors of the Federal Reserve System, in a considered answer to questions asked by this committee, that "we know of no figures that permit a precise measure of the relative impact of credit restraints, in particular, on different groups of borrowers." (Hearings, p. 591.)

Thus, a potent tool is being relied on to stabilize the economy while those who are in charge of its use confess little knowledge of its impact and the hardships or restraints which may grow out of its use.

In the light of this uncertainty and lack of knowledge, it is all the more disturbing that the tendency of the authorities in recent years appears to have been to use the specific tools at their disposal in ways which have made for discriminations rather than a uniform burden upon various parts of the economy.

The Reserve authorities have at their disposal three major instruments with which to implement overall policy: (1) changes in member bank reserve requirements; (2) open market purchase and sales of Government securities; and (3) the fixing of discount rates at which member banks may borrow to secure added reserves.

In June 1954 and again in August 1954, when the Reserve authorities were trying to arrest a downward trend in economic activity by a policy of monetary ease, they elected to reduce member bank reserve requirements. Although the System since mid-1955 has actively pursued and continues to pursue the opposite policy of restraint, member bank reserve requirements have not been correspondingly raised. Although the policy of restraint has not been fully effective as judged from price increases in recent months, changes in reserve requirements have been passed over and today stand at the same levels that were established in mid-1954.

This means that during the recession banks were encouraged to expand their loans, which was quite proper, but that in an inflationary period, banks are allowed to charge a higher interest rate on the same amount of credit. In other words, the policies pursued have favored banks in both periods.

As to the second instrument of monetary policy—namely, open market operations—reserve bank credit outstanding as of the end of 1956 was $24.9 billion compared to $24.8 billion at the end of 1955. While there were seasonal variations during the year, the facts are that use of this instrument too has been neglected throughout 1956. The tightening of the money market as far as this instrument is concerned has taken place from the demand side. Reserve authorities, while following the policy of overall restraint, have added fractionally to their holdings of Government securities rather than to reduce them as would have been dictated had they been willing to use this device to further implement their general policy.

In contrast to this perverse inaction with respect to member bank reserves and open market operations, the discount rate has been raised 6 times in the past 18 months. Defenders of the System will doubtless say that restriction, by whatever means, means higher interest rates. But the question certainly needs to be raised as to why the System has chosen direct interest-raising manipulation, with its direct immediate effect upon the structure of all interest rates, as a way of accomplishing results which might equally well have been accomplished by other devices. The rise in interest rates induced by the upward thrust of discount rates has certainly tended to favor bankers and lenders. It tends to have a minimum effect upon large corporations which supply large parts of their capital from retained earnings and the general capital market, while it bears heavily upon the farmer, home buyer, and small businessman, whose costs are immediately raised by any increased scale of interest rates. In Section III we shall discuss the use of alternative methods to control inflation which would produce greater equity among borrowers.

(4) Given the present prospects for high employment and inflationary pressures, general tax reduction at this time would impose excessive burdens on monetary controls to curb inflationary pressures.

Thus, while agreeing with the overall objective of maintaining levels of current tax "take," it is not unfair to point out that this administration is prone to look for and defend tax loopholes that a previous administration urged should be closed.

Thus, while this is not the moment for overall tax reduction, there is no reason why the tax code should not be revised to plug the loopholes and to give greater equity to various groups in the economy. Although there was a revision of the code in 1954, it was slanted, largely, in the direction of more and better "investment incentives." The dividend credit and depreciation provisions are cases in point.

Tax revision could promote both equity and the attainment of a fair, flexible, and sound tax system at all levels.

(5) Because monetary, expenditure, and tax policies are of such great importance in the quest for economic stability and growth, there is a tendency to overlook the important contribution which regulatory functions of Government can and should make to these same objectives.

One can agree wholeheartedly with the statement in the President's report:

> The essential function of Government in this sphere is to foster a competitive environment in which all segments of business can share fairly in opportunities to realize their potentialities.

It is not unfair to ask that these pious words be translated into action and to point out the general failure of the independent regulatory agencies under the Eisenhower administration.

The President is right in recommending that the authority of the Securities and Exchange Commission should be strengthened, if necessary, to prevent developing and remaining abuses in the distribution and sale of securities. However desirable added authority may be the SEC has not been as watchful and effective as it could and should be even under present legal authority. "Soft" regulation by the various commissions packed, as many of them now are, with representation from the industries which they seek to regulate, appears to be a deliberate policy of the administration. Thus, while proclaiming "freer trade" the President has packed the Tariff Commission with high tariff members. The Eisenhower appointees to the FPC, with one possible exception, have been reluctant to enforce the statutes under which they exist and have even been advocates of the most selfish legislative demands of the industries they control. It is in this area that we have seen one of the greatest weaknesses of the Eisenhower administration.

III

While the Congress may review the action of the President, the real burden of leadership must, in most areas, fall upon the executive branch of the Government. Nonetheless, a few specific constructive recommendations may not be out of place here even though they do not cover the whole gamut of governmental policy or legislative requirements.

(1) Economic programs which in recent years have been largely in control of the representatives of business and industry need to be oriented to place greater emphasis on the interests of the economy as a whole. In particular, policies should be geared to a much greater extent to the consumer sectors. Agricultural policy, too, should be designed to encourage food consumption in a world which is far from well fed, rather than despairingly aimed at production restriction. Tax policy likewise should frankly recognize that the ultimate support for full employment lies in consumer demand; that undue encouragement of plant expansion may lead to violent fluctuations in private investment—one of the most volatile economic components.

(2) However wise a restrictive monetary policy may be, one need not give blind faith to the assumption that public responsibility ends with restricting the overall quantity of credit and that the market forces will inevitably ration limited credit in an equitable way. It is notorious that many of our markets are, in fact, far from "perfect" in the sense visualized by abstract theory. They are frequently imperfect because of regional and group differences in relative bargaining power, because of institutional factors, and because adjustments take varying lengths of time. Therefore there is no reason why Government policy should not be used as a device to influence and aid a system of social priorities. Government should not stand by and see

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limited credit resources diverted to possibly low business and private priorities while high social priorities such as schools and slum clearance go unsatisfied. High priorities in access to credit ought to be assigned to agriculture and especially to the needs of agriculture in drought areas. High credit priority ought to be given to the problems of distressed areas. The requirements for low and middle, income housing should likewise be placed high on the list of items entitled to a fair chance to limited credit resources.

The indifference of the executive branch to the problems of these credit priorities is matched only by the lack of leadership in the executive branch and the Reserve System itself in making recommendations for needed changes in our monetary and financial system. The President, in his Economic Report and state of the Union message, now proposes a thorough study of the nature, performance, and adequacy of our credit and banking structure. The need, if any, for this study arises because the executive branch has not on its own initiative from time to time proposed needed legislation, although subcommittees of this committee and students of banking matters have repeatedly suggested revisions in a wide range of matters, such as the organization of the Reserve System, the reserve requirements of member banks, etc. If such a study is now to be made it should be done by the Congress with a view to legislative proposals, or by the existing executive agencies which have the facilities and, over the years, should have accumulated experience and understanding of the needs.

(3) As the accompanying report of this committee points out, the challenge for the year ahead is to recognize and adapt ourselves to constantly changing conditions and especially the possibilities of either misjudging the outlook or that the outlook may suddenly change. The potentialities for introducing needed flexibility into Government programs rest in large part in the hands of the executive branch. The expenditure program of the Federal Government is, of course, an important potential instrument of stabilization policy.

In this respect the budget is a disappointment, not only because of its huge size, but also because at best it is a neutral force in the fight on inflation. In times of prosperity and inflation there should be a sizable budget surplus which can be used to reduce the debt and thus contribute to economic stability.

At the moment it would seem wise to cut or delay construction of at least $2 billion of military and civilian public-works projects. There are also many other items in the budget, especially subsidies to favored industries, which could and should be reduced.

At the same time Congress should consider giving specific authority to the President to activate public-works programs or to "trigger" them into action when or if unemployment or instability threatens.

In this way the budget could truly become an effective instrument of economic stability which, at the moment, it is not.

PAUL H. DOUGLAS.

SUPPLEMENTAL VIEWS OF SENATOR WATKINS

In general, I concur in the findings and recommendations of the committee report. Nevertheless, the report fails to analyze and evaluate adequately the economy's performance in 1956.

This basic question, significantly, is left unanswered: Did the economy achieve the stated objectives of maximum production, employment, and purchasing power contained in the Employment Act of 1946?

Since the committee report—as did the majority report of last year—fails to perform this necessary function, I again feel obligated, as a member of the Joint Economic Committee, to provide such an appraisal in these supplemental views.

The outlook for 1957, as the committee report indicates, is for "further increases in employment, production, and purchasing power," but "with no general easing of pressures toward further cost and price increases" (p. 3). Under the circumstances, the Federal Government has not only a responsibility to formulate and carry out fiscal and monetary policies which will ease these pressures, but also not to make expenditures at a level which will increase such pressures.

On the other hand, increased expenditures for certain types of activities can serve, even under the economic conditions described, to promote productivity and to lead to economies in a wide range of economic activities, so as to relieve the pressure of upward prices which always exists in a full employment economy.

For example, such justifiable expenditures include sound, long-range water resource developments, an activity recognized in the committee report as essential to increased productivity and economic advancement in many areas. An outstanding example of this type of development, in my opinion, is the Colorado River storage project, a well-planned, comprehensive program to develop the last remaining major water supply for a semiarid region larger than New England. By comparison with the costs—which are largely reimbursable for such multiple-purpose developments—the benefits derived are astronomical. In addition to water, such projects yield new jobs, new communities, new products, new opportunities, and a better life for the people of the areas served and for their descendants for generations to come. Such benefits are greatest of course in the immediate project area served—the area, incidentally, which reimburses the Treasury for the capital costs, together with interest on many other items—but they have economic impact throughout the Nation because of the maintenance or expansion of markets from utilization of a renewable resource which has been wasted or used inadequately. Because of the unfair and unsound attacks made upon such programs in recent months, and in light of the budgetary situation, I deem it essential to discuss this matter briefly later in these supplemental views.

THE ECONOMY IN 1956

The Employment Act of 1946 indicated that it was a "continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations," among other things, to "promote maximum employment, production, and purchasing power" (sec. 2, 60 Stat. 23). The President's Economic Report transmitted to the Congress each year contains essentially a statement of the plans and policies which the administration believes will achieve those stated objectives.

Although the committee report rather consistently suggests the levels of production, employment, and purchasing power needed in the coming year to carry out the policies of the Congress stated in section 2 of the Employment Act so as to maintain a free and expanding economy, no attempt is made, other than by general reference, to evaluate past performance. This appraisal is provided below:

Production: GNP

Referring to the outlook for 1956, the 1956 Economic Report concluded:

> Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth (p. 49).

That these levels were "broadly sustained" indeed, is recognized by the committee finding that "the American economy in 1956 reached *record heights* with respect to employment, production and purchasing power [italics supplied]" (p. 2). Not only did they reach optimum levels, but they did so to an extent which is consistent with the attainment of Employment Act objectives of maximum production, employment and purchasing power, measured in real terms.

A year ago, the committee staff report indicated that the assumptions underlying the President's Economic Report and the budget implied a gross national product of about $400 billion for 1956. Two adjustments must be made to make this projection comparable to the actual gross national product figure for 1956:

1. It must be raised by $3.7 billion to compensate for revisions in the benchmark data from which the projection of $400 billion was made a year ago.
2. It must be increased by $9.3 billion to allow for price increases which accrued during 1956.

As the staff report points out:

> The preliminary figure for 1956 presented in the January 1957 Economic Report is $412.4 billion. This is $0.6 billion, or less than 0.2 percent, below the GNP assumption of a year ago, when adjusted as indicated for revisions in data and rises in prices. The staff considers this difference to be negligible, since it is for smaller than the possible future revisions of the preliminary data for 1956 now available (p. 59).

This 1956 gross national product of $412.4 billion represents a growth of 2.7 percent in real terms of goods and services produced over 1955. Since expansion at this rate approximates the average of past years not marked by wars or severe recessions, it is evident that the rate of growth was sufficient to meet the stated Employment Act objectives of maximum production, employment, and purchasing power.

When it is considered that in 1955 the economy achieved a 7.2 percent increase in *real* output, a rate of expansion of 2.7 in the same terms above that record level is itself quite phenomenal. The year 1956, as the majority report of last year indicated, faced the challenge "of adjusting to a more sustainable pattern of balanced growth—of adjusting to a rate consistent with rising productivity and growth in the labor force, avoiding the excesses of inflation and rising prices on the one hand, or renewed recession and rising unemployment on the other" (p. 2). Although moderate price increases were sustained, neither "excesses of inflation" were experienced, nor were "recession and rising unemployment" even remotely in view. Clearly, the economy met the challenge.

Employment

Total civilian employment in 1956 averaged 65 million persons. No one disputes that 1956 is the only year in history in which average employment reached this level. As the President's 1957 Economic Report put it:

> The expansion of overall business activity in 1956 created ample job opportunities in most occupations, and incomes rose for all major groups. . . . Sizable employment gains were made in trade, construction, finance and other services, public utilities, and State and local governments (p. 26).

There was a net gain of 1.8 million persons in civilian employment during 1956. This was achieved through a reduction in unemployment of 100,000 persons for the year, and an increase of 1.7 million new entrants into the civilian labor force. The staff report clearly indicates that "employment exceeded the assumed long-term trend" (p. 57), as the civilian labor force increased by 1 million persons over its projected increase of 700,000 persons made a year ago (1956 committee report, p. 86).

Although several so-called "hard-core" areas of unemployment existed in 1956, it nevertheless is significant to note that "the average duration of unemployment was shorter than in 1955, and unemployment for men with family responsibilities was low" (1957 Economic Report, p. 28). Substantial progress was made in 1956 toward relieving the distress caused by prolonged unemployment.

For the economy as a whole, unemployment at 3.8 percent of the civilian labor force was less than the committee staff projection of 4.0 percent, which the staff seems to accept as being normal in years not marked by war or severe recessions. Although other economists believe this figure of 4 percent to be too low to reflect needed mobility in an expanding and dynamic economy, the fact that unemployment actually was below the level projected as normal, and, therefore, implied as consistent with Employment Act objectives, it is evident that the objective of maintaining maximum employment consistent with potential economic growth was achieved in 1956.

Purchasing power

One of the objectives of the Employment Act of 1946 is the promotion of a level of maximum purchasing power so as to maintain a sustainable increase in productivity and maximum possible employment, which is consistent with balanced economic growth. The Chairman of the Council of Economic Advisers in his testimony interpreted the term:

> as meaning the amount of funds becoming available to individuals for expenditure. That is personal income. Or you can interpret it perhaps as the amount of money which individuals are expending (Hearings, p. 23).

Simply phrased, "disposable personal income" is that income individuals receive, after taxes, which they can either spend or save.

Disposable personal income was maintained at a high level during 1956. Resulting consumer expenditures set a new spending record of $265.7 billion. As the President's 1957 Economic Report points out:

> Consumer expenditures on all goods and services continued to rise. But the gains were not as large as during 1955, reflecting a smaller increase in incomes and a greater volume of savings. A larger amount of tax payments further limited the gain in personal disposable income * * *. Personal savings accumulated at an annual rate of $22 billion in the final quarter of 1956, compared with less than $19 billion in the same period of 1955. Nonetheless, consumers in the final quarter of the year bought nondurable goods at an annual rate more than $6 billion higher than a year earlier, and added at a similar rate to their spending on services (p. 24).

The level of disposable personal income is one of the best indicators of economic activity. Important also is the rate of accumulation, since it serves to indicate the direction of movement the economy is taking, i. e., expansion, contraction, etc.

In 1956, total disposable personal income rose by $16.1 billion in terms of current prices. At $286.7 billion, this represented a 5.9 percent increase over 1955. Measured in terms of constant 1956 prices, disposable personal income increased by $12 billion or 4.4 percent over the $274.7 billion income earners received in 1955.

This increase was $11.4 billion in excess of the $275.3 billion in disposable personal income, which the committee staff projected a year ago would be necessary if the "purchasing power" objective of the Employment Act of 1946 were to be achieved. This rate of growth of 4.4 percent, measured in constant prices, certainly compares well with the 2.7 percent increase in real overall production for 1956. Without doubt this rate of growth in disposable personal income is at least equal to and/or consistent with the average long-run trend of past years, which saw normal economic activity distorted by wars or recessions.

Conclusion

Very clearly, the American economy achieved the Employment Act objectives of "maximum employment, production, and purchasing power, when measured in real terms." Price increases which *averaged*

2.7 percent for the year, even though the rate of increase gained momentum during the latter part of the year, did not prevent the achievement of Employment Act objectives.

Some members of the committee have questioned whether it is possible to have price stability and at the same time achieve the stated Employment Act objectives of "maximum production, employment, and purchasing power." Of course, if price stability means *static prices*, obviously this is not possible, for the economy is beset with constantly changing prices, moving both upward and downward. However, if economic activity for a stated *period of time* is measured in terms of *constant prices*—average prices for the period, and, therefore, "stable prices"—as the committee staff measures it each year, then the "stated objectives" and price stability may both be compatible and capable of realization. Achievement of both objectives requires that the rate of increase in the price level not be excessive as reflected in the magnitude of the constant or average prices prevailing for the period. If excessive, comparison of the actual with projected levels of production, employment, and purchasing power needed to approximate the average rate of growth for years not marked by wars or recessions, will reveal that the actual failed to approximate the projected levels, and thus that price instability prevailed during the period. As indicated by previous analysis, it is evident that the economy achieved both price stability, as defined above, and levels of production, employment, and purchasing power necessary to achieve the stated objectives of the Employment Act.

Conceived in such terms, "price stability" implies moderate fluctuations. As Chairman Patman put it during the hearings, in considering whether price level fluctuations represent instability, one must "make a distinction between a necessary expansion and inflation" (Hearings, p. 19). Fluctuations which at one point of time or phase of the business cycle, may appear to be incompatible with the stated Employment Act objectives, may, at another point of time or phase of the business cycle, be essential in order to obtain those objectives. Prof. Lester V. Chandler made this point very clear during the hearings with the observation that—

> If you take the 1939 situation, for example, where you have widespread unemployment and unused resources, it may well be that some rise of prices is an absolute necessity if you are going to get full employment. But if you take the situation in which unemployment is already at the minimum, and you are running the economy at practically full speed, it does not follow that you are going to get the same kind of increase in output (Hearings, p. 516).

If moderate in nature, depending upon the circumstances, price fluctuations seem not inconsistent but identifiable with price stability.

Admittedly, we cannot afford to minimize the hazards implicit in the inflationary trend of the past year, as we appraise the economy in 1957 and consider appropriate fiscal and monetary policies. On this point the committee is very explicit:

> Developments in 1956 and current prospects for 1957 bring into focus the problem of maintaining stability of the general level of prices during periods of full employment. To curb general price increases, the rate of expansion of total spending

> must be held down to the rate of increase in real output. Otherwise, intensive bidding for resources and goods will drive up cost and price structures throughout the economy (p. 3).

The year began with inflationary pressures present; it ended with such pressures dominating economic activity. Government, business, and labor face a major challenge in checking the general price level which did move up sharply in 1956.

WATER RESOURCE DEVELOPMENT

Water resource development has become the most important single need in economic expansion and industrial production in most parts of the country. This is borne out by the evidence from the Nation's foremost authorities.

The President's Cabinet-Level Advisory Committee on Water Resources Policy made this evaluation in 1955:

> Water is more than a national resource—it is a necessity of life.
>
> Here in the United States, blessed with a continent of virgin soil, we lived more than 200 years before the water problem became generally acute.
>
> But the uses we make of water in modern society are so tremendous that they stagger the imagination.
>
> The coming of our industrial era, the raising of our living standards, and the increased application of water to land have now highlighted the problem until in much of the Nation there is grave and increasing concern over water resources.
>
> Shortages of water for domestic and agricultural use are frequent. Industry is finding it increasingly difficult to locate adequate water supplies.
>
> Many streams and rivers are seriously polluted. Concurrently, tremendous losses in water are being experienced through wasteful practices and failure properly to conserve supplies.
>
> Lack of adequate planning threatens to impose a water scarcity which can become a limiting factor on the growth of some of our cities, while at the same time flood damage in many areas continues to be great.

In appointing the Committee, President Eisenhower stated the same thing, more succinctly, as follows:

> The conservation and use which we make of the water resources of our Nation may in large measure determine our future progress and the standards of living of our citizens.
>
> If we are to continue to advance agriculturally and industrially, we must make the best use of every drop of water which falls on our soil, or which can be extracted from the oceans.

An earlier analysis, by the Engineers Joint Council Panel on National Water Policy in 1951, "Principles of a Sound National Water Policy" (p. 1), stated:

> The conservation, development, use and control of our water resources are recognized as a primary element of our national economy.

Recognition of the key economic role water resource development plays came many years ago in the semiarid and arid West, where, from the days of colonization, water supply has been the major limiting factor in western growth and economic expansion.

The contributions of water resource development to the growth of the West were recognized by the following statement in the 1955 Hoover Commission report on Water Resources and Power (vol. I, p. 44):

> The justification for Federal interest in irrigation is not solely to provide land for farmers or to increase food supply. These new farm areas inevitably create villages and towns whose populations thrive from furnishing supplies to the farmer, marketing his crops, and from the industries which grow up around these areas. The economy of seven important cities of the West had its base in irrigation—Denver, Salt Lake City, Phoenix, Spokane, Boise, El Paso, Fresno, and Yakima. *Indeed these new centers of productivity send waves of economic improvement to the far borders, like a pebble thrown into a pond.* Through irrigation, man has been able to build a stable civilization in an area that might otherwise have been open only to intermittent exploitation. [Emphasis added.]

A similar conclusion was reached in volume II of the Task Force Report on Water Resources and Power, produced also by the Commission on Organization of the Executive Branch of the Government (vol. II, p. 604):

> The task group considers there is a Federal interest in the development of technically and economically sound irrigation developments. This interest lies in the opportunity for the creation of new basic enterprises, new communities, new homes, and the stabilizing of the agricultural economy over a large surrounding area. No other form of basic resource development, which the Federal Government has helped and encouraged over 130 years, furnishes as attractive an investment or provides so great a return in western regional development.

The fact that water resource development is of serious concern outside the semiarid West is stressed by Maj. Gen. Emerson C. Itschner, Chief of Engineers, United States Army. In an address before the American Society of Civil Engineers in Pittsburgh, October 16, 1956, he made a point which has been repeated and underscored by him on many occasions since:

> In the waterway and hydraulic fields, access to water is emerging as the most critical single factor in determining the locations of industries. Water is needed for cheap transportation, for use in industrial processes, and for consumption by the communities that surround and support industries. Today there is hardly a section of the Nation where the

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water supply needed for future growth is not a serious problem. It is one that generally must be solved by engineering works of increasing complexity. For example, here in the Ohio Basin the corps is working on a comprehensive, integrated water-resources plan devised only 20 years ago. It is considerably less than half finished. Yet so many and great are the changes that have occurred in the valley during those 20 years that we are now engaged on a review survey to determine whether the plan may have to be substantially modified to best provide for increasing needs and demands of the area * * *. Water resource development may lack glamor in comparison with some of the other fields of engineering, yet none is more basically important.

In a speech before the National Rivers and Harbors Congress on May 11, 1956, Senator Stuart Symington made this prediction:

> In all probability within 20 years water will be the most critical scarcity of all our national resources.
>
> According to the Hoover Commission, in 1975 water consumption will be 1½ times greater than it was in 1950, but in 1950 we were already suffering serious water shortages in many areas, a trend that is increasing each year.

The need for long-range planning and construction of water resource works is well demonstrated in the evolution of the Colorado River storage project, a program to develop water for a four-State (Colorado, New Mexico, Utah, Wyoming) semiarid area.

This comprehensive, basinwide water-development program was under planning for a quarter century, financed largely by revenues from Hoover Dam power and contributions by the States affected. Construction of the initial units of the projects was authorized by the 84th Congress, and contract awards on two major units are expected this year.

If appropriations keep this project moving on schedule, Glen Canyon Dam, largest storage unit in the system can be completed in from 6 to 8 years. However, it will require another 12 to 15 years for the reservoir to be filled from available floodwaters in excess of downstream requirements in the three-State lower basin and Mexico. Maintenance of an orderly flow of appropriations is essential not only to effect major project economies, but also to insure that the water to be developed is available in the resource-rich mountain West to permit continued economic development and to permit existing and future industries to effect economies of production through access to water and hydropower.

The upper basin of the Colorado River system is rich in natural resources. Two hundred fourteen different minerals are found in the area, many of them of strategic and economic importance. More than four-fifths of the Nation's uranium, one-third of our copper, and large quantities of lead, zinc, phosphates, potash, gold, silver, coal, gilsonite, gypsum, tungsten, molybdenum, vanadium, oil, natural gas, and other minerals are found there. The Nation's greatest petroleum reserves—more than the liquid oil wealth of the Persian Gulf—are found in the oil shale deposits of Colorado and Utah.

Water from the Colorado River storage project will help unlock this relatively untapped storehouse of raw materials, and will give that mountain-desert area roughly twice the amount of water it is now getting from the Colorado, the area's last major source of water.

Furthermore, 99 percent of the capital costs of this project will be repaid by area water and power users. The same consumers also will pay for the operation and maintenance of project facilities including interest on funds which may have to be borrowed for power and municipal water facilities. Such projects requiring many years for construction and full utilization, are certainly necessary to aid in providing for full employment for an increasing population in the years to come.

The fact that such projects produce major economic dividends, frequently worth many times the project cost, has been well demonstrated in a half century of Federal reclamation activity. In a special report to the Congress in 1955, Commissioner W. A. Dexheimer of the United States Bureau of Reclamation reported the 50-year-old $3 billion reclamation program had produced these cumulative values: Nearly $10 billion worth of crops, nearly $10 billion in income to nonfarm urban areas adjacent to reclamation projects, Federal tax revenues since 1916 of more than $3 billion, and plant and property valued at $2.4 billion. Furthermore, the reclamation reservoirs are producing recreational business returns estimated at $33 million annually, and net power revenues of $34 million annually. Net power revenues from these plants during the next 50 years could bring into the Treasury an additional $1,692.5 million beyond the cumulative returns noted.

Detailed economic analyses have been made on several reclamation projects, at the request of the House Interior and Insular Affairs Committee. Highlights of some of these reports underscore their economic contributions, as follows:

The irrigated area and towns within the North Platte project in western Nebraska support 27 times as many people and provide 40 times the income of adjacent prairie areas of equivalent size.

In California's Central Valley, production directly attributable to water delivered from the Federal project was estimated at $154 million. About $54 million was paid to 7,500 farm workers and to 50,000 employees in collateral industries. It enabled the purchase of $40 million in new and used cars, $10 million in farm implements, $25 million in gasoline, $13 million for apparel, and $15 million for home furnishings and appliances. And none of these economic contributions would have been possible without the water development provided, without the use of a renewable natural resource that was being wasted into the ocean.

One of the country's earliest reclamation projects, the Salt River project, made possible the growth of an agricultural-industrial economy in Maricopa County, Ariz. From a Federal investment of $20 million in the Salt River project, the Federal Government has realized more than $609 million in income and excise taxes since 1934, in addition to direct repayment of $11 million of the reclamation investment.

In the Weber Basin of Utah, for another example, annual economic benefits of a $70 million project now being completed there are estimated at $20.5 million. This means that economic returns of the project in slightly more than 3 years will match the project cost. At present rates of growth, this area may become largely urban and industrialized before reimbursement is completed on this reclamation project, which makes such growth possible.

Such regional dividends from water resource projects are of tremendous national importance. And this importance is increasing, as humid areas learn and apply lessons that have long been apparent in the semiarid West. Today the highest proportional increases of irrigated land acreage are found in the East and South. Furthermore, the pressure for long-range water storage planning and regulation of stream flow is now frequently as heavy in humid parts of the East and South as it has been in the West for much of the past century. The economic necessity of this all-essential natural resource is becoming daily more apparent throughout the Nation and the committee's recognition of the economic importance of water resource development is to be applauded.

COMMITTEE STAFF

Again this year, I wish to thank publicly the committee executive director, Grover W. Ensley, the committee clerk, John W. Lehman, and staff economist, James W. Knowles, for their assistance and cooperation.

ARTHUR V. WATKINS.

SUPPLEMENTAL VIEWS OF REPRESENTATIVES CURTIS AND KILBURN

We feel impelled to make an addendum to this report. We cannot understand the failure of the President's Economic Report or of this committee's report to analyze the economic features of the "tight money" situation which lies behind the present cost rise we are experiencing and other economic difficulties alluded to in the two reports. Practically every witness who testified on this matter before the committee agreed that behind the tight-money situation lay the shortage of investment capital for all business, not just small business.

Shortages are created by the play of the forces of supply and demand. The shortage of investment capital comes from an increased demand that is greatly in excess of the increased supply.

Several factors lie behind the increased demand for capital investment. (1) The increasing population. (2) The increasing productivity which requires an increasing amount of capital investment in machinery. Estimates were made before our Tax Policy Subcommittee in its hearings in December 1955 that it required an average of $14,000 of capital investment to employ one man in the United States today. Undoubtedly that investment figure rises as productivity (automation) increases. (3) The increasing living standards of our people (increased supply of consumer dollars). (4) The effects of inflation on replacement of capital plant and equipment. Under our tax laws depreciation is limited to the cost of the capital item. Most of the United States production plant is on the books at the 1940 dollar cost. After 10 years of inflation the capital items are being replaced at a growing rate. The replacements even for identical items require twice the dollar reserves set aside for replacement. So, just to stand still, let alone move ahead, in capital plant, we need additional investment dollars. (5) The high level of Federal Government's expenditures.

Several factors lie behind the lower rate of increase of the investment dollars available to meet the higher rate of increase of demand. (1) The high rate of Federal taxation which takes away potential savings. (2) The emphasis in the Federal tax structure on the taxation of the investment dollar as opposed to the consumer dollar. (3) The psychology of the people toward saving, as it is affected by Government fiscal and expenditure policies. (4) The various channels available to the investment dollar as affected by inflation and by our Federal tax structure. To illustrate, inflation, as a form of taxation, cut into savings channeled into investments with the fixed dollar sign such as savings accounts, bonds, notes, etc. Yet these forms of investment are given great preference over equity investment by our tax structure if the equity investor must realize a yearly increment on his investment. But the same tax structure gives a great preference to equity investment over fixed investment if the investor does not need yearly income; and even a greater preference to an investor who is content to pass his wealth on to his heirs. Our tax structure, in fact, encourages this preferred type of investor to desire to limit the availability of equity investment. (In simple words, our tax structure is a great deterrent to savings and capital accumulation and particularly to new equity investment.) (5) Our tax structure is a deterrent upon corporate savings, particularly on small corporations and small businesses not operating under the corporate form of doing business.

We have been disappointed that neither the President's report nor the committee's report spell out the evil economic effects of inflation, although in the appraisal of our economic condition in the President's report many factors are mentioned which upon analysis result largely from the inflation of World War II. We have mentioned the effect of inflation on such things as capital replacement. The difficulty experienced by school districts and other local taxing authorities in obtaining the revenue necessary to meet the needs of its citizenry, is the result largely of inflation. The situation is this: Our school districts and local taxing authorities get the bulk of their revenue from real-estate taxes. Real-estate taxes are based upon assessed valuations of the peoples' homes, buildings, and lands. These valuations are placed upon the assessor's books over a period of time. The bulk of the assessments on the books of our communities was placed there before 1945, before inflation. The result is that the total assessed valuation in most communities is based upon the preinflated dollar, but the costs of materials and labor which these communities must buy is based upon the inflated dollar. The situation cannot be corrected by raising the real-estate tax rate, because then even a more unfair burden (it is pretty unfair as it is) is placed upon the new property coming onto the books after 1945 at the inflated dollar value. The only answer is to go through the mechanics of assessing every piece of real estate all over again. This is not only a difficult mechanical job, but it is an even more difficult political job.

Certain overtones remain in the committee report though we have been gratified to have many that were in the original draft eliminated or muted, which carry the thought that somehow or other the Federal Government can plan and direct our economy. We are convinced that the best the Federal Government can do today is to preserve the climate under which our private enterprise system can thrive. Perhaps someday men will be wise enough to move into the unknown through a system other than an enlightened trial and error system. But that day has not yet arrived. In essence, the private enterprise system is no more than a trial and error system although many people seem not to appreciate it.

THOMAS B. CURTIS.
CLARENCE E. KILBURN.

DISSENTING VIEWS OF SENATOR GOLDWATER

The general assumption of the introduction, findings, and recommendations of the proposed report of the Joint Economic Committee that the Employment Act of 1946 has resulted in the high rate of economy in this country and its adjustment to postwar conditions is one in which I cannot concur. It is my feeling that the normal action of the free-enterprise system having been allowed to operate during the past 4½ years, plus the adjustment in taxes made in 1954, has resulted in the economic situation that we have today.

Some generalities in the proposed report are so broad as to leave no meaning with the reader, such as "The Federal Government in such circumstances carries a great responsibility for formulating and carrying out policies which will give the maximum opportunity for the free play of private incentives basic to the growth of our enterprise economy, while maintaining stability in the price level." Just what does the committee recommend be the course of the Government? Certainly, if we are to make such a statement we should be a little more specific in spelling out what we should do. The reference to a stable price level should not be made by any group interested in economy because we know that a stable price level probably can never be maintained in this country with all of the forces that play upon the structure that determines price levels.

I believe we should have been much stronger in our insistence that taxes be cut for the good of the whole economy, and that we should have been more explicit in pointing out the areas in which the budget could be reduced to achieve this reduction in taxes.

I believe that we should have gone a step further in paragraph 11 by pointing out that not only labor and management have a responsibility in the area of price and wage increases but that the Federal Government has a like responsibility and that it should not press for enactment of extended minimum wage at this time, to be in keeping with that policy.

I believe that the inference left in point 12 that Congress has a mandate to see that no small business, regardless of its soundness, is denied money to finance itself is wrong and that the true intent of the legislation should have been expressed.

These objections are among those I raised to this report. I, therefore, object to its being printed in its present form and ask that my objections be included as the personal views of this Senator.

BARRY GOLDWATER.

DISSENTING VIEWS OF SENATOR O'MAHONEY

Much to my regret, I find it necessary to say that, in my opinion, the report of the Committee does not adequately review either the Economic Report of the President or the economic conditions the country faces. Because of the meetings of the Judiciary Committee and the Interior and Insular Affairs Committee, of both of which I am a member, and because of the obligation I have felt to appear before the Foreign Relations and Armed Services Committees in their consideration of Senate Joint Resolution 19, I was unable to attend as many meetings of the Joint Economic Committee as I would have desired. Perhaps if I had been able to attend I would not be writing this brief dissent.

It seems to me to be clear, however, that the general tone of this report is based upon assumptions which are not justified in the light of the economic facts before us. I cannot overlook the budget which the President has submitted for the next fiscal year. This is the largest budget ever sent to Congress by any administration while the Nation was not involved in a fighting war. Secretary of the Treasury George M. Humphrey appeared before the Joint Economic Committee and acknowledged that he felt that the President's budget should be cut. When questioned to make suggestions as to where the cutting could take place, he was unwilling to do so. Individual Senators, not on the Committee, I am told, have appealed to him personally for suggestions for reduction, but he has not made them. This presents a direct conflict of opinion between the President and one of the most frank and able members of his Cabinet.

The Federal Reserve Board and the Open Market Committee appeared before the Joint Economic Committee and defended the policy of tight money by which the cost of money borrowed by the Government, as well as the cost of money borrowed by the citizens of the country, has been monetarily increased. The increased burden of the national debt as represented in the budget for 1958 is estimated to be $100 million more than it was estimated to be for the current fiscal year. The budget estimate for the current year is $7,200 million but the interest rates on the obligations of the United States have been rising steadily since 1953, and they have been rising even since the budget for fiscal 1958 was written.

The President, in public utterances as well as in the budget itself, has recognized the increasing burden which is cast upon the people of the United States by the mounting inflation. Increases in the price of steel, increases in the price of oil, and increases in the price of many commodities which will necessarily have to be used both in Government programs and in business-expansion programs are recognized by professional and business economists just as the President has recognized them; but, he has offered no program in the Economic Report to hold prices in line.

The President's Economic Report is necessarily pointed to the course of action that should be taken during this calendar year and during the next fiscal year. It will be searched in vain, however, for anything more than suggestions. No firm policy of government is offered calculated to deal effectively with the management of the public debt or with the budget.

Nowhere do I find, either in the President's Report or in the Committee report, any recommendations that would meet the economic dilemma with which we are confronted. This dilemma arises out of the fact that the President has found the economic cold war between the United States and Russia more critical by far than he hoped for in earlier predictions of peace and prosperity. The report of the Committee seems to rely upon what it calls the dynamic forces underlaying the economy. These dynamic forces are in jeopardy because the Department of Defense has not presented a coordinated budget for the armed services. It has increased the budget, because the present situation is vastly different from that which was expected and there is continued conflict among the three branches of the armed services. Waste has not been eliminated and the overlapping of activities has not been abolished.

Added to this is the notification that the President gave to the Congress in his special message of January 5 that, in addition to the discretion of the authority to expend in the Middle East $200 million of funds already appropriated for mutual security, he would ask Congress for the authority to make similar discretionary expenditures in the same sum for the 2 ensuing fiscal years.

With this promise of increased expenditures, with the great doubt that postal rates will be raised, with the steadily increasing interest on the national debt and the poor market condition of Government bonds and other operations, it only can be said, it seems to me, that we are not facing the issues of our time and that the President's Report is based upon Micawber's hope that "something will turn up" rather than any specific recommendations contained in the message.

JOSEPH C. O'MAHONEY.

THE ECONOMIC OUTLOOK FOR 1957 AND OTHER MATERIALS

PREPARED FOR THE
JOINT ECONOMIC COMMITTEE
BY THE
COMMITTEE STAFF

LETTER OF TRANSMITTAL

February 18, 1957.

Hon. Wright Patman,
United States House of Representatives,
Washington, D. C.

Dear Representative Patman: Transmitted herewith are committee staff materials on the economic outlook for 1957. These materials, as in previous years, attempt to quantify the "foreseeable trends" of economic activity for 1957 which the committee staff believes are consistent with the outlook assumptions of the President's Economic Report and budget.

Also transmitted is a staff review of materials on the economic outlook for 1956 submitted a year ago and attached to the committee's annual report to the Congress (S. Rept. No. 1606, 84th Cong., 2d sess.).

While it is necessary to use detailed and precise figures in preparing economic projections which are internally consistent, it must be emphasized that the purpose of such projections is to show the general order of magnitude and direction of possible major economic developments on the basis of stated assumptions.

Sincerely yours,

Grover W. Ensley, *Executive Director.*

THE ECONOMIC OUTLOOK FOR 1957

SUMMARY

A gross national product of $435 billion for 1957 in beginning-of-year prices appears consistent with the President's Economic Report. Its achievement would represent growth in real output of 3.1 percent from 1956, compared to a 2.7 percent increase last year over 1955.

Expansion at this rate approximates the average trend of output in past years exclusive of those marked by war or severe recession. (See chart I, p. 44, and table 3, p. 48, covering years 1952–57.) The Council of Economic Advisers has agreed that this rate of growth would fulfill the employment and production objectives of the Employment Act. (Hearings on the January 1957 Economic Report of the President before the Joint Economic Committee, 85th Cong., 1st sess., pp. 31–32, hereinafter cited "Hearings.")

The estimates for 1957 in these materials are stated in prices about 2.3 percent above the average of 1956. By the fourth quarter of 1956, prices already had advanced more than 1.5 percent above the average of the year and have risen since then.

On the basis of available resources, most economists expect prices to continue to rise during 1957 if Government, business, and consumers spend at rates presently indicated. Stated in the higher prices which are likely to prevail in 1957, therefore, gross national product may exceed the figure indicated above.

Until clear indications to the contrary appear, therefore, public policy should be based on the assumption of continued economic growth accompanied by upward pressures on prices. As always, we must be prepared for a reversal.

EXPECTED DEMAND FOR NATIONAL PRODUCTION DURING 1957

Assuming no significant changes in the character of international developments, total Federal, State, and local government demand is expected to reach $85 billion in 1957, an increase of $5.2 billion from 1956. This is accounted for by an increase of $2.5 billion in Federal expenditures, mainly military, and a $2.7 billion increase in State and local government expenditures, reflecting expanding construction programs and higher payrolls. These increases also reflect the higher prices to date. (For related receipts and surplus estimates, see table 1, p. 46, and Technical Materials, p. 52.)

Business demand is expected to total $71 billion in 1957, a rate already achieved. Most of the $4.2 billion increase over last year reflects an expected $3.8 billion rise in business spending on producers' durable equipment compared to an increase of $5 billion in 1956. An expected increase in other private construction more than offsets an anticipated decline in residential construction (nonfarm), which will reduce housing starts to an estimated 1 million units. The level of demand will depend upon whether business actually carries out present plans for additional new investment in the face of the possibilities of continuing declining liquidity, higher construction and equipment costs, the tight money and shrinking profits margins. Declines during the second half of 1956 in construction contract awards and in new orders for machinery could be signaling more weakness in new investment in 1957 than the leveling out reported so far in surveys of business plans and authorizations. The next Government survey, to be available in early March, should clarify prospects. (For data on sources of funds, see table 1, p. 46; table 2, p. 47; and Technical Materials, pp. 51 and 53.)

Consumer demand is expected to increase about $13 billion, to $279 billion, assuming continuation of the income tax and personal savings rates prevailing in 1956. While changes in the rate of consumer spending and saving are always possible, and expected in a free-market economy, recent surveys point to no significant changes in consumer spending attitudes in the months immediately ahead.

"POTENTIAL" NATIONAL PRODUCTION IN 1957

"Potential" gross national product in 1957, consistent with long-run trends in labor force, hours of work, and productivity, for all practical purposes approximates the above estimate of aggregate demand for 1957, when both are stated in the same prices. This is not in itself, of course, a forecast of actual production in 1957. (For components and underlying assumptions, see table 3, p. 48, and Technical Materials, pp. 53–56.)

THE NATION'S ECONOMIC BUDGET FOR 1957

These estimates of Government, business, and consumer demand, on the one hand, and "potential" production consistent with long-run trends in labor force, hours, and productivity, on the other hand, permit construction of a Nation's economic budget totaling $435 billion for 1957, as shown in table 1, page 46. As indicated above, these estimates are stated in prices roughly the same as at the beginning of 1957.

Chart I, page 44, shows a comparison of actual gross national product in recent years and that assumed for 1957 with "potential" gross national product consistent with the trend of output in past years not marked by war or severe recession.

What are the implications of these figures—mindful that they are plans and expectations, and not predictions?

They suggest, first of all, that the Nation's economic budget for 1957, if realized, probably would result in a level of economic activity consistent with the Employment Act objectives of "maximum employment, production, and purchasing power." This would be a repetition of the experience of 1956.

Second, total demand, if as large as anticipated, would continue to press against available resources as in 1956 when prices rose in spite of monetary and fiscal restraint. While the average price of last year's national output was almost 3 percent higher than the 1955 average, the price rise gathered momentum during 1956. (See chart II, p. 45, and table 4, p. 49.) Since changes in retail or final product prices sometimes lag behind movements at the wholesale level, price rises in 1956 at the earlier stages of production might be reflected in 1957 in higher retail prices.

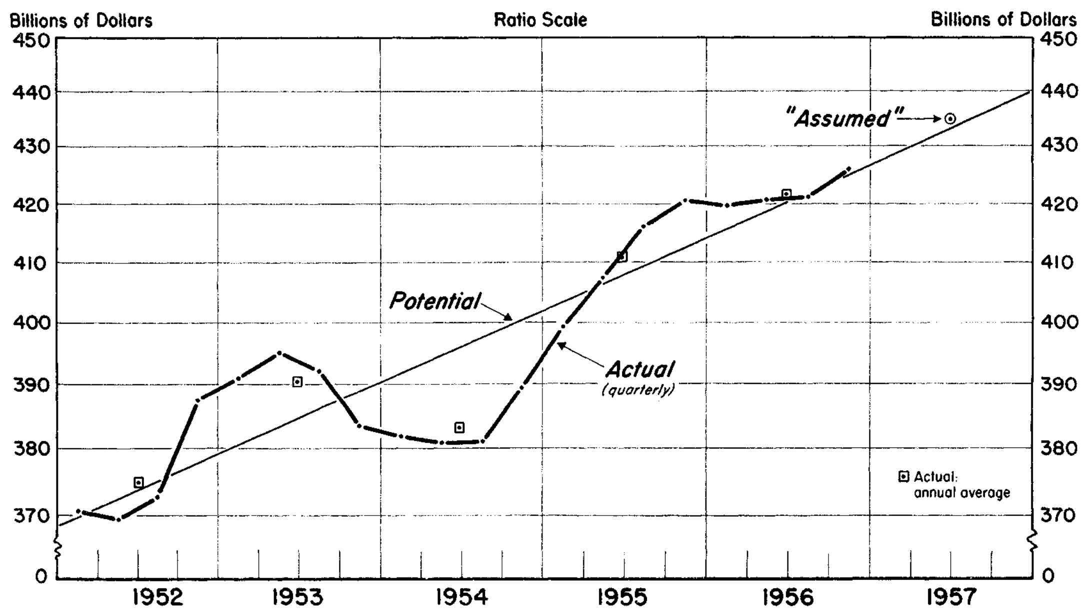
With an economy in which resources may continue during 1957 to be as fully employed as in recent months, inflationary hazards clearly cannot be ignored. This is largely because production in a "fully employed" economy is not merely a matter of capacity and numbers alone, but of the degree of mobility of resources and of the time and incentives necessary to bring about adaptations to changes in demand. Unless aggregate demand is restrained sufficiently, a cost-price push can operate since producers are prone to bid up the prices of the limited productive resources in an effort to obtain their share of current market demand and to expand productive capacity fast enough to maintain or increase their share of expected future enlarged markets for goods and services.

The challenge of this implication is to design policies within the context of the free enterprise system to achieve simultaneously a stable price level and high rates of growth in and use of productive resources. Some question whether any one of these goals can be achieved over the long run unless the others are achieved also.

Third, although the outlook for 1957 points to overall expansion, nevertheless there are elements of uncertainty. Public policy must be prepared to deal with unemployment as well as inflation. Although occasional divergences from complete stability of average prices and of employment are to be expected, vigilance is required to protect against cumulative forces which would cause both excessive departures from stability and interference with growth.

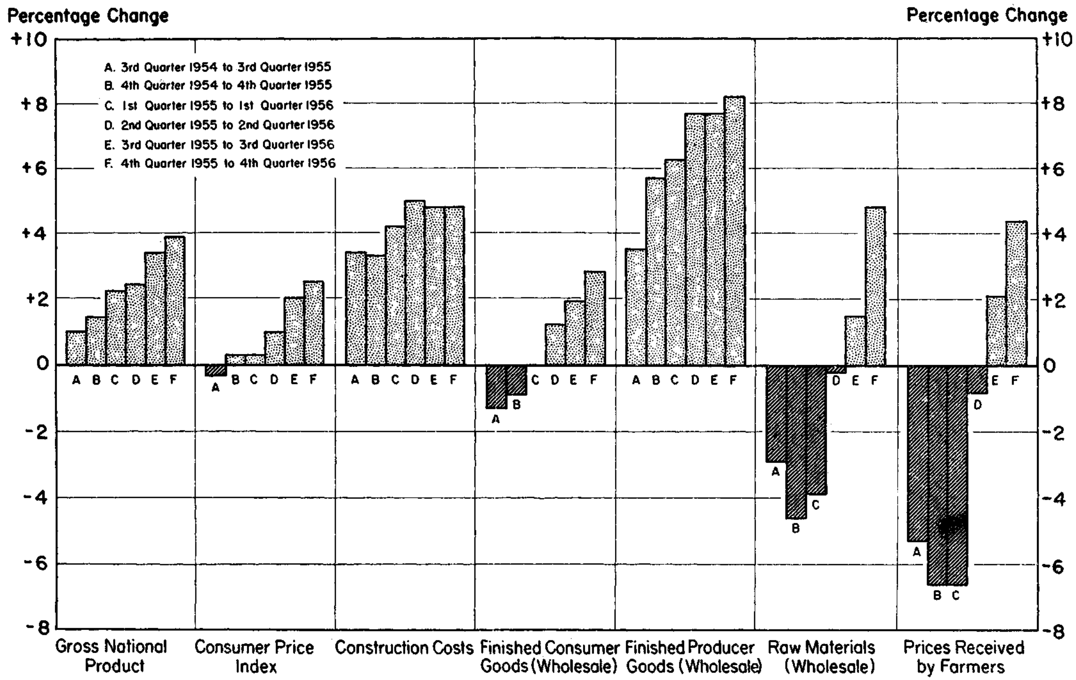
Chart I. POTENTIAL GROSS NATIONAL PRODUCT COMPARED TO ACTUAL 1952-1956, AND ASSUMED RISE IN 1957

As implied in the Budget and Economic Report
(in constant beginning-of-1957 prices -- seasonally adjusted)



Source: Department of Commerce, Council of Economic Advisers, and Staff, Joint Economic Committee.

Chart II. RECENT CHANGES IN PRICES



Sources: Departments of Agriculture, Commerce, and Labor, and Staff, Joint Economic Committee.

TABLE 1.—*Summary of the Nation's economic budget, actual calendar years 1952–55; preliminary, 1956; and estimated, 1957*

[In billions of dollars]

Item	1952	1953	1954	1955	Preliminary 1956	Estimated 1957 [1]
Personal:						
Income: Total disposable	237.4	250.2	254.4	270.6	286.7	301.0
Expenditures:						
Durable goods	26.6	29.8	29.4	35.7	34.0	35.0
Nondurable goods	116.1	119.1	120.9	126.2	132.9	138.0
Services	75.6	81.7	86.3	92.1	98.9	106.0
Total expenditures	218.3	230.5	236.5	254.0	265.7	279.0
Savings (+)	19.0	19.7	17.9	16.6	20.9	[2] 22.0
Business:						
Income:						
Undistributed corporate profits	7.1	7.4	6.4	9.9	9.5	[3] 9.6
Capital consumption allowances	23.9	26.5	28.8	31.3	34.0	[3] 37.0
Inventory valuation adjustment	1.0	−1.0	−.3	−1.7	−2.5	−2.0
Total income	32.0	32.9	34.8	39.5	41.0	44.6
Expenditures:						
Residential construction (nonfarm)	11.1	11.9	13.5	16.6	15.3	[4] 14.7
Other construction	12.6	13.8	14.4	16.1	17.9	[5] 19.0
Producers' durable equipment	23.1	24.3	22.4	23.7	28.7	[6] 32.5
Net change in business inventories	3.0	.3	−2.3	4.2	3.5	[7] 2.6
Net foreign investment	−.2	−2.0	−.4	−.5	1.4	[8] 2.2
Total expenditures	49.6	48.3	47.6	60.1	66.8	71.0
Dissavings (−)	−17.6	−15.4	−12.8	−20.6	−25.8	−26.4
Government:						
Income:						
Personal tax and nontax payments	34.4	35.8	32.9	35.5	38.5	42.0
Business tax and nontax payments	47.9	50.5	46.9	54.0	56.5	59.2
Contributions for social security	8.6	8.7	9.7	11.1	12.5	13.3
Less: Transfer payments [10]	16.8	17.5	19.9	21.6	23.7	26.1
Total income	74.1	77.5	69.6	79.0	83.8	[9] 88.4
Expenditures:						
Federal	54.3	59.5	48.9	46.7	47.0	49.5
National security	48.8	51.5	43.0	41.2	41.6	44.2
Other [11]	5.5	8.0	5.9	5.5	5.4	5.3
State and local	23.2	24.9	27.6	30.1	32.8	35.5
Total expenditures	77.5	84.4	76.5	76.8	79.8	[9] 85.0
Dissavings (−) or savings (+)	−3.3	−6.8	−6.9	+2.2	+4.0	+ [9] 3.4
Statistical discrepancy (−) or (+)	+2.0	+2.6	+1.8	+1.8	+1.0	+1.0
Total gross national product	345.4	363.2	360.7	390.9	412.4	435.0

Source: 1952–56, Department of Commerce; 1957, staff, Joint Economic Committee.

NOTE.—Reference numbers in this table relate to correspondingly numbered Technical Materials, pp. 49–56. Detail may not add to totals because of rounding.

TABLE 2.—*Relation of gross national product, net national product, national income, and personal income, actual calendar years, 1952–55; preliminary, 1956; and estimated, 1957*

[In billions of dollars]

Item	1952	1953	1954	1955	Preliminary 1956	Estimated 1957 [1]
Gross national product	345.4	363.2	360.7	390.9	412.4	435.0
Less: Capital consumption allowances	23.9	26.5	28.8	31.3	34.0	37.0
Equals: Net national product	321.6	336.7	331.9	359.5	378.4	398.0
Less:						
Indirect business tax and nontax liability	28.1	30.2	30.2	32.5	34.6	[9] 37.0
Business transfer payments	1.2	1.4	1.4	1.4	1.4	1.4
Statistical discrepancy	2.0	2.6	1.8	1.8	1.0	1.0
Plus: Subsidies less current surplus of Government enterprises	−.1	−.4	−.2	+.3	+.9	[9] +1.4
Equals: National income	290.2	302.1	298.3	324.0	342.4	360.0
Less:						
Corporate profits and inventory valuation adjustment	36.9	36.0	32.9	40.9	40.9	[12] 42.0
Contributions for social insurance	8.6	8.7	9.7	11.1	12.5	[9] 13.3
Excess of wage accruals over disbursements	0	−0.1	0	0	0	0
Plus:						
Government transfer payments	12.0	12.9	15.0	16.1	17.3	[9] 18.8
Net interest paid by Government	4.9	5.0	5.2	5.2	5.5	[9] 5.9
Dividends	9.0	9.3	10.0	11.2	12.0	12.2
Business transfer payments	1.2	1.4	1.4	1.4	1.4	1.4
Equals: Personal income	271.8	286.0	287.3	306.1	325.2	[13] 343.0
Less:						
Personal tax and nontax payments	34.4	35.8	32.9	35.5	38.5	[9] 42.0
Federal	31.2	32.4	29.1	31.3	34.0	37.0
State and local	3.2	3.4	3.8	4.2	4.6	5.0
Equals: Disposable personal income	237.4	250.2	254.4	270.6	286.7	301.0
Less: Personal consumption expenditures	218.3	230.5	236.5	254.0	265.7	279.0
Equals: Personal savings	19.0	19.7	17.9	16.6	20.9	[3] 22.0
Addendum:						
Corporate profits and inventory valuation adjustment	36.9	36.0	32.9	40.9	40.9	42.0
Inventory valuation adjustment	1.0	−1.0	−0.3	−1.7	−2.5	−2.0
Corporate profits before tax	35.9	37.0	33.2	42.7	43.4	[12] 44.0
Corporate profits tax liability	19.8	20.3	16.8	21.5	21.9	22.2
Corporate profits after tax	16.1	16.7	16.4	21.1	21.5	[14] 21.8
Dividends	9.0	9.3	10.0	11.2	12.0	[15] 12.2
Undistributed corporate profits	7.1	7.4	6.4	9.9	9.5	9.6

Source: 1952–56, Department of Commerce; 1957, staff, Joint Economic Committee.

NOTE.—Reference numbers in this table relate to correspondingly numbered Technical Materials, pp. 49–56. Detail may not add to totals because of rounding.

TABLE 3.—*Actual and potential* [16] *gross national product in constant 1947 prices, calendar years, 1952–56, and potential 1957*

Item	1952		1953		1954		1955		1956		1957 Potential [16]
	Actual	Potential [16]	Actual	Potential [16]	Actual	Potential [16]	Actual	Potential [16]	Preliminary	Potential [16]	
Population (in millions)	157.0		159.6		162.4		165.3		168.1		171.0
14 years of age and over	115.4		116.5		117.6		118.9		120.2		121.7
Total labor force (in millions)	[17] 67.0	[18] 66.7	67.4	[18] 67.4	67.8	[18] 68.1	68.9	[18] 68.9	70.4	[18] 69.7	[18] 70.6
Armed Forces	3.6	[19] 3.0	3.5	[19] 3.0	3.4	[19] 3.0	3.0	[19] 3.0	2.9	[19] 3.0	[19] 3.0
Civilian	63.4	63.7	63.8	64.4	64.5	65.1	65.8	65.9	67.5	66.7	67.6
Unemployment	1.7	2.5	1.6	2.6	3.2	2.6	2.7	2.6	2.6	2.7	2.7
Percent of civilian labor force	2.6	[20] 4.0	2.5	[20] 4.0	5.0	[20] 4.0	4.0	[20] 4.0	3.8	[20] 4.0	[20] 4.0
Employment	61.7	61.2	62.2	61.8	61.2	62.5	63.2	63.3	65.0	64.0	64.9
Private [22]	55.7	55.2	56.1	55.7	55.1	56.3	56.8	56.9	58.4	57.6	58.3
Agriculture	7.2	6.6	6.6	6.5	6.5	6.4	[21] 6.7	6.3	6.6	6.2	6.1
Nonagriculture	48.5	48.6	49.6	49.2	48.6	49.9	50.1	50.6	51.8	51.3	52.2
Government, civilian [23]	6.0	[19] 6.0	6.1	[19] 6.1	6.2	[19] 6.2	6.4	[19] 6.3	6.6	[19] 6.5	[19] 6.6
Private:											
Average annual hours: [24]											
Agriculture	2,460.2	2,485.0	2,491.7	2,465.0	2,443.3	2,445.0	2,418.3	2,426.0	2,359.0	2,406.0	2,387.0
Nonagriculture	2,059.2	2,055.0	2,051.7	2,040.0	2,011.3	2,024.0	2,023.7	2,008.0	2,018.0	1,991.0	1,976.0
Output per man-hour (in 1947 dollars): [25]											
Agriculture	$1.272	$1.373	$1.425	$1.414	$1.541	$1.456	$1.561	$1.500	$1.661	$1.545	$1.592
Nonagriculture	2.468	2.484	2.531	2.548	2.583	2.614	2.694	2.684	[26] 2.685	2.755	2.827
Gross national product (in billions of 1947 dollars)—											
Total	293.7	293.0	305.3	301.5	300.8	310.1	322.4	319.4	330.4	328.9	[29] 339.3
Private	268.9	270.4	280.7	278.4	276.8	286.7	298.6	295.7	306.4	304.7	314.7
Agriculture [27]	22.4	22.5	23.3	22.7	24.5	22.8	25.4	23.0	25.8	23.2	23.4
Nonagriculture	246.5	247.9	257.4	255.7	252.3	263.9	273.2	272.7	280.6	281.6	291.4
Government [28]	24.8	22.6	24.6	23.1	24.0	23.5	23.8	23.7	24.0	24.2	24.6

Sources: Population, labor force, and average annual hours: Bureau of the Census, Department of Commerce, except as noted. Gross national product: 1952–55 actuals and 1956 preliminary, Office of Business Economics, Department of Commerce. Potentials: Staff, Joint Economic Committee.

NOTE.—References to footnotes in this table refer to correspondingly numbered Technical Materials, pp. 49–56. Detail will not necessarily add to totals because of rounding.

TABLE 4.—*Recent changes in prices*

Item	Percentage change					
	3d quarter, 1954, to 3d quarter, 1955	4th quarter, 1954, to 4th quarter, 1955	1st quarter, 1955, to 1st quarter, 1956	2d quarter, 1955, to 2d quarter, 1956	3d quarter, 1955, to 3d quarter, 1956	4th quarter, 1955, to 4th quarter, 1956
Average prices of gross national product	+1.0	+1.4	+2.2	+2.4	+3.4	+3.9
Consumer Price Index	−.3	+.3	+.3	+1.0	+2.0	+2.5
Construction costs	+3.4	+3.3	+4.2	+5.0	+4.8	+4.8
Wholesale prices:						
Finished consumer goods	−.9	−1.3	0	+1.2	+1.9	+2.8
Finished producer goods	+3.5	+5.7	+6.3	+7.7	+7.7	+8.2
Raw materials	−2.9	−4.6	−3.9	−.2	+1.5	+4.8
Prices received by farmers	−5.3	−6.6	−6.6	−.8	+2.1	+4.4

Sources: Departments of Agriculture, Commerce, and Labor, and staff, Joint Economic Committee.

TECHNICAL MATERIALS

These technical materials contain numbered references relating to the tables in this report. They present definitions, explanations, basic assumptions, quotations of supporting materials from official statements or from the committee hearings on the January 1957 Economic Report of the President, and references to sources of related information.

1. Estimates for 1957 reflect assumptions contained in Executive Branch statements and the Joint Economic Committee staff's interpretation of levels consistent with the President's Economic Report. The January 1957 Economic Report of the President (hereinafter cited "Economic Report"), page vii, states:

> There are grounds for confidence that the Nation's overall prosperity will be extended into the months ahead. A moderate rise in business capital outlays is indicated. Construction expenditures and foreign trade and investment should continue to favor economic expansion. The combined expenditures of Federal, State, and local governments are expected to be higher. Consumer expenditures should be sustained by favorable employment conditions and good earnings.
>
> However, uncertainties and problems are always present in the economic situation and require careful attention. These include the present international situation, the upward pressure of costs and prices, factors affecting capital outlays by business, and the provision of an adequate flow of new savings to meet the prospective heavy demands for funds.

The budget message of the President, January 16, 1957, states:

> The present estimates of budget receipts for 1958 are based on the assumption that the Nation will continue to have a high level of business activity with increasing national income, and that the present tax rates will be continued (p. M 9).

Estimates assume that prices in 1957 will be about 2.3 percent above 1956. By the fourth quarter of 1956, prices already had advanced by over 1.5 percent above the average of the year. The assumption seems reasonably consistent with Secretary Humphrey's letter of January 16, 1957, to Senator Paul H. Douglas; see Hearings, pages 19–20.

See also Economic Report (p. 46), where it states:

> * * * While the moderate upward drift of the price level may not yet have run its course, enlarged output, improved productivity, and vigorous competition, supported by appropriate public and private policies, can help counteract the forces making for higher prices.

See testimony of Dr. Saulnier in response to questioning by Mr. Mills (Hearings, pp. 17–18), as follows:

> Dr. SAULNIER. The economic message, while it does not do it in quantitative terms, contemplates an expansion of the economy in 1957 over 1956, which would justify these higher estimates of personal income and of corporate profits, without price effect.
>
> Now, of course if we are unsuccessful in holding the line on prices and have rising prices with the present levels of employment and of income, that will, of course, yield a higher volume of tax revenues. We would hope that that would not happen.
>
> Representative MILLS. Now certainly the Secretary meant to convey the thought that you have when he wrote his letter, because he says in this letter, "We do not assume any change in prices from the present."
>
> Now, is this projection into calendar year 1957 sufficient to carry out the objectives of the Employment Act?
>
> Dr. SAULNIER. In my judgment, it is.

See also testimony of Ewan Clague (Hearings, p. 89) in regard to price trends in 1957:

> So far as the immediate future is concerned, if the demand factors which gave rise to the price increases show no further strengthening—in other words, if investment demand flattens out and if consumer buying follows the income curve and consumer credit is expanded only moderately—there may well be more stability in the price picture.
>
> As of this time, signs of upward price pressures are still evident in those sectors of the economy where demand continues to burgeon; signs of price weakness are appearing only in those fields where demand is less urgent than it formerly was. In addition, there is no indication of any halting of the long-run uptrend in the cost of services; the demand for personal and professional services is continually rising. At the same time, price declines in the agricultural sector are no longer offsetting increases elsewhere.

2. Personal savings are assumed to be 7.3 percent of disposable personal income, the same as in 1956. Neither the Economic Report nor Dr. Saulnier's testimony (see Hearings, p. 32) is explicit about the rate of saving in 1957. However, they are broadly consistent with relative stability of the savings rate in the range of 7 to 7.5 percent of disposable personal income.

See also testimony of George Katona (Hearings, p. 129), especially the following conclusion:

> According to current indications we may expect that the rate of liquid saving will remain at least as high in 1957 as in 1956, while at the same time borrowing (installment buying) may increase.

3. These estimates of internal funds were derived from table 2 and are consistent with the testimony of Martin R. Gainsbrugh (Hearings, p. 127), where he states:

> On the other hand, depreciation allowances will undoubtedly increase as much, if not more than, in the previous year, while corporate profits available for internal use may be about the same as in 1956.

4. Based on construction outlook estimates for 1957, prepared jointly by the Departments of Commerce and Labor. Press release of November 21, 1956. See also Economic Report (p. 46) and testimony of Martin R. Gainsbrugh (Hearings, p. 124).
5. See note 4 above, and Hearings, pp. 122–124.
6. Based on Business Plans for Capital Spending in 1957 and 1958, a survey by the McGraw-Hill Publishing Co., Inc., New York, December 14, 1956. Confirmed by testimony of Martin R. Gainsbrugh (Hearings, pp. 122–124), and judgment of Dr. Saulnier (Hearings, p. 32).
7. See Hearings (p. 33) where Dr. Saulnier stated:

> Well, inventory accumulations were fairly high in 1956 and I think it is reasonable to expect further accumulations in 1957.

See also, Hearings (p. 125) where Martin R. Gainsbrugh stated his expectation of almost no inventory accumulation this year:

> The reasons for expecting at least some decline in the present rate of inventory accumulation are—
>
> (1) Considerably lower liquidity on the part of corporations, and relatively high borrowing costs, both of which are dissuading business from substantial further net investment in inventory;
>
> (2) The fact that in capital goods industries, where a substantial part of recent accumulation has occurred, the rate of ordering is evidently slowing down, reducing the requirements for forward inventory coverage; and
>
> (3) Growing capacity in most industries is progressively eliminating the supply uncertainties which provided some of the incentive for accumulation in late 1955 and 1956.
>
> * * * The inventory outlook for all of 1957 seems to point to a moderately higher book value at the end of the year, but no appreciable change in physical level, and hence something approaching zero in the gross national product inventory component.

8. Martin R. Gainsbrugh (Hearings, p. 125) testified that:

> A continuation of the increase in net foreign investment is likely in 1957. The past year saw net foreign investment reach $1.1 billion (this excludes economic and military aid

shipments, which do not give rise to foreign investment as usually defined in our national accounts), the first time since 1951 that the net foreign investment of the United States has been positive. Probable developments in 1957 make it appear unlikely that a like increase will take place in this year, but it does seem likely that foreign investment will continue to increase substantially.

The National Foreign Trade Council Balance of Payments Group (consisting of a large and representative number of individuals serving generally in the role of economists with manufacturers, exporters, importers, banks, transportation companies, and other concerns directly engaged in international trade and investment) expects that net foreign investment will come to about $2.2 billion in 1957, about double the 1956 rate, but the increase is still below that which took place in 1956.

9. Estimates of Government receipts and expenditures for 1957 are based on the budget and on information on State and local finances obtained in the hearings. (See testimony of Louis J. Paradiso, Hearings, pp. 118–121.)

On a fiscal year basis, as distinct from the calendar year basis used in these staff materials, the Department of Commerce summarized official budget estimates as follows:

Federal Government receipts and expenditures: Administrative budget, cash budget, and national income and product account: 1956–58

[In billions of dollars]

	Fiscal years		
	Actual 1956	Estimated	
		1957	1958
Administrative budget:			
Receipts	68.1	70.6	73.6
Expenditures	66.5	68.9	71.8
Surplus	1.6	1.7	1.8
Cash budget:			
Receipts	77.1	81.7	85.9
Expenditures	72.6	78.2	82.9
Surplus	4.5	3.5	3.0
National income and product account:			
Receipts	75.4	80.3	84.0
Expenditures	70.0	74.8	79.7
Surplus	5.4	5.5	4.3

Source: Administrative and cash budgets from the budget of the United States Government for the fiscal year ending June 30, 1958; national income and product account data from U. S. Department of Commerce, Office of Business Economics; statistics for 1957 and 1958 based on estimates in the budget. U. S. Department of Commerce, Office of Business Economics, Jan. 18, 1957.

10. Also includes net interest and subsidies, minus current surplus of Government enterprises.

11. Other Federal purchases of goods and services less Government sales.

12. Assumption underlying revenue estimates in the President's budget of January 1957. See letter of G. M. Humphrey, Secretary of the Treasury (Hearings, pp. 19–20).

13. The revenue estimates in the President's budget of January 1957 are based on an assumed personal income of $340 billion. The slightly higher assumption used in this staff table seems more consistent arithmetically with the other estimates in this Nation's economic budget and has an insignificant effect on the revenue estimates for calendar 1957.

See testimony of Dr. Saulnier (Hearings, p. 17), especially the following:

> The estimates that we have independently made vary little from the estimates that the Treasury has made. And those variations are quite well within the range of estimating error.

Estimates of personal income for 1957 probably include allowance for some increases in wage rates. For example, Ewan Clague stated (Hearings, p. 88):

> There are now at least 5 million workers who can expect wage increases during this coming year on the basis of contracts concluded in 1955 and 1956. These workers are found in almost every industry, but are concentrated in metalworking, construction, transportation, food, and mining. About half of them will receive pay adjustments of between 6 and 8 cents an hour. In addition, cost-of-living escalator clauses may affect the incomes of nearly 4 million workers.
>
> * * * * *
>
> These deferred increases will undoubtedly have some effect on 1957 negotiations in other industries, but nevertheless there can be no certainty as to the size of the wage increases which will be negotiated this year. Among the important industries in which contracts are due to expire or are subject to reopening on wages this year are petroleum, rubber, lumber, chemicals, textiles, coal mining, paper, telephone and other utilities, trade, and construction.

14. Assumes continuation of present tax rates (President's budget message of January 1957, p. M6).

15. Assumes continuation of 1956 ratio of dividends to profits after taxes.

16. The potentials are consistent with projections of long-run trends published in *Potential Economic Growth of the United States during the Next Decade* (materials prepared for the Joint Committee on the Economic Report by the committee staff), joint committee print, 83d Congress, 2d session. The word "potential," therefore, refers to average long-run trends of past years exclusive of those marked by war or severe recession. The estimates given in table 3 are consistent with the original estimates made in 1954, but incorporate adjustments for revisions in data and are stated in 1947 prices rather than 1953 prices.

17. The actual labor force estimates for 1952, shown here, differ from published figures of the Bureau of the Census as a result of using revised population estimates consistent with later years (Hearings, p. 91, table 1).

18. It is assumed that the potential labor force will increase 800,000 to 900,000 from the 1956 potential to the 1957 potential. The potential labor force data are trend estimates which, through 1955, assume the 1920–50 trends in age-sex labor force participation rates with an adjustment in the rate for adult women based on accelerated increases observed in the postwar years 1947–50. After 1955, the trend assumes continuation of 1947–55 trends in age-sex labor force participation rates. (See testimony of Ewan Clague, Commissioner of Labor Statistics, Hearings, p. 86, where he pointed out that in 1956 the actual labor force was above the long-run trend.)

19. The estimates of potential Government employment, civilian and military, are based on long-term trends which smooth out year-to-year fluctuations. For the Armed Forces, the potential assumes 3 million each year; less than the strength prevailing when the study was made originally in 1954 but more than the 1956 size of about 2.9 million. For civilian government employment the trend increases about 100,000 per year to take care of the long-term growth, principally at the State and local level, in such occupations as schoolteaching, police, fire, etc., where employment is related to population growth. It is assumed that international developments will not cause any marked change in the planned size of the Armed Forces.

20. Unemployment is assumed to average about 4 percent of the civilian labor force each year. These assumed unemployed persons would be largely new entrants into the labor force; the frictionally unemployed (i. e., those in process of changing jobs) and those shifting to new industries or occupations because of technological advances. The use of this assumption does not imply that the committee staff necessarily believes that this level of unemployment is "the level" consistent with the goals of the Employment Act. Such a determination is beyond the scope of staff responsibilities. However, such data as are available suggest that unemployment in years not marked by war or severe recession has averaged close to 4 percent of the civilian labor force.

21. The increase in agricultural employment of 0.2 million over 1954, shown by the Bureau of the Census data, is a reversal of the trend of the past decade and does not agree with the 0.2 million decline between 1954 and 1955 shown by the farm employment estimates of the Agricultural Marketing Service.

22. It is assumed that agricultural employment will slowly decline while private nonagricultural employment and total civilian government employment rise.

23. Estimates of civilian government employment were taken from the estimates of the National Income Division, Office of Business Economics, Department of Commerce, in order to be consistent with their estimates of Government gross product. The figures include all Federal, State, and local civilian employees except employees in government commercial-type enterprises.

24. It is assumed that average annual hours of work will decline slightly less than 1 percent per year. On this point, in Hearings, page 87, Ewan Clague testified that—

> In making future projections the continued downtrend in the workweek in nonmanufacturing industries justifies assuming some further decline in the average workweek for the economy as a whole; but as far as manufacturing is concerned,

it is better not to predict the workweek without first making some assumptions about the trend of output.

25. Output per man-hour is assumed to increase about 3 percent per year in agriculture and about 2.5 percent in private nonagricultural industries. These are rates of change which correspond to the long-term trend assumed for the current decade. They are above the average rates over the past century but are moderately below the rates of the past decade. Actual changes in any particular year-to-year comparison may be somewhat greater or smaller, depending upon a variety of factors reflecting the way in which our flexible economy adapts itself to changing demands. In the case of agriculture, particularly, the change for any individual year may differ from the assumed 3 percent because of temporary departures of growing conditions from average or Government restrictions on crop acreage. Studies by the Bureau of Labor Statistics on trends in output per man-hour in manufacturing appear to be roughly consistent with the estimates of output per man-hour in private nonagricultural industries developed in committee staff studies. See report of the Bureau of Labor Statistics in Hearings on Automation and Technical Change Before the Subcommittee on Economic Stabilization of the Joint Economic Committee, 84th Congress, 1st session, pages 301–334; also testimony of Ewan Clague, Hearings, pages 87–88.

26. The plateau in output per man-hour in private nonagricultural industries from 1955 to 1956 was confirmed in testimony of Ewan Clague (Hearings, p. 88), as follows:

> If we take into account the whole private nonagricultural economy, we find an average annual gain of about 3½ percent from 1947 to 1953, 3 percent annually in 1954–55, and practically no increase in 1956. This is based on hours of all persons at work.

27. "Potential" agricultural gross national product differs from, and is generally lower than, the actual in each of these years because of: (*a*) year-to-year fluctuations in yields due to weather and other growing conditions; and (*b*) the "potential" reflects long-term trends roughly consistent with a balance between agricultural output and demand, while in many recent years actual agricultural output has exceeded demand.

28. Government gross product represents compensation of general Government employees—civilian and military. The potential is based on the assumed trends in Government employment specified in note 19 above.

29. This potential for 1957 is 3.1 percent above that for 1956. Dr. Saulnier testified that a long-run rate of growth of about this magnitude was consistent with the thinking of the Council of Economic Advisers, and with the economic assumptions underlying the President's budget (Hearings, pp. 31–32). The interchange between Representative Mills and Dr. Saulnier was as follows:

> Dr. SAULNIER. Our own calculations of what would be involved in terms of increased production, employment, and income, if we expand in 1957 at about a normal historical rate, correspond roughly with what has been estimated by the Treasury.

Representative MILLS. Now, let me get it down to figures. Do you mean to say then, that if we have in the calendar 1957 an increase in our overall national production of 3 or 3½ percent, which is I understand about the normal increase or normal growth, that increase will reflect this addition in personal income?

Dr. SAULNIER. That is right.

Representative MILLS. So then we do get down to this point, that the budget receipts are predicated upon a growth in overall gross national product of around 3 or 3½ percent?

Dr. SAULNIER. It would be in that neighborhood, that is right. That is, a growth that would be consistent with the objective of the Employment Act to maintain a level of employment that will provide jobs for those who can be expected to come into the labor force in 1957.

REVIEW OF THE MATERIALS ON THE ECONOMIC OUTLOOK FOR 1956

One year ago, in transmitting its materials on the economic outlook for 1956, the committee staff included with them a review of the previous year's outcome in relation to the advance estimates for 1955 contained in the materials brought together in January 1955. In reviewing these materials, the staff said:

> Economic policy decisions are forward looking. They rest on assumptions about future developments formulated in the light of present knowledge and observable trends. They should include provision against surprise if events work out differently. Progress in developing better economic policies can be achieved by constant reexamination of experience so as (1) to improve our knowledge of how to select the best assumptions for particular purposes, and (2) to improve techniques for estimating as precisely as possible the outcome to be expected from any assumption or combination of assumptions used as a basis for policy decisions. Such improvements in economic projections can contribute to economic stability.
>
> The only way that economists and policymakers can review adequately previous economic analyses is to insist upon clear, exact statements of the analyses and assumptions, including quantitative estimates for those factors for which historical measurements are available in our economic statistics.[1]

This year, the staff reviews the materials on the Economic Outlook for 1956.[2]

How did actual output in 1956 compare to the staff estimate of potential output?

The staff estimate of the potential output for 1956 was $327.4 billion in prices prevailing in 1947.[3] The preliminary estimate of gross national product in 1956 in 1947 prices is $330.4 billion.[4] The actual output, therefore, was $3.0 billion or about 0.9 percent above the potential.

How can this difference be accounted for in terms of employment, hours of work, and productivity? Employment exceeded the assumed long-term trend as the labor force increased 1.5 million, compared to an average increase of 800,000–900,000 per year. This could account for an excess of output over potential of about $4.3 billion. Hours of work were slightly longer than trend, accounting for an excess of output of $2.7 billion. Finally, output per man-hour in the

[1] Report of the Joint Committee on the Economic Report on the January 1956 Economic Report of the President, S. Rept. No. 1606, 84th Cong., 2d sess., p. 99.
[2] Ibid., pp. 81–98.
[3] Ibid., table 1, p. 88.
[4] January 1957 Economic Report of the President, table E–4, p. 127.

private nonfarm sector apparently failed to increase in 1956. This resulted in output falling $4.0 billion below the levels possible if output per man-hour had reached the trend value as then estimated.[5]

Clearly output in 1956 was above the computed potentials, accompanied by lower unemployment (3.8 percent) and longer hours of work than assumed. Output per man-hour, however, seems to have been disappointing, although little confidence can be placed in year-to-year movements of this ratio—especially when based on such preliminary data. As in the past, the staff would stress that temporary departures of actual output from the potential are to be expected. Such departures are not to be interpreted as errors in the projections of long-run potentials.

Potential gross national product, 1956, versus actual

[Billions of 1947 dollars]

Potential GNP: January 1956 staff projection		327. 4
Actual varied from potential because:		
Employment was above trend	+4. 3	
Hours of work were above trend	+2. 7	
Output per man-hour was below trend	−4. 0	
Net excess, actual over potential:		
Amount	+3. 0	3. 0
Percent	. 9	
Gross national product: preliminary January 1957		**330. 4**

How good a basis for policy were the demand assumptions implicit in the Economic Report and the budget?

The January 1956 Economic Report of the President stated:

> Under current conditions, the economic growth of our Nation is limited by industrial capacity and accretions to the labor force. When the economy has reached so high a level its near-term course is inevitably surrounded by a margin of uncertainty, and minor movements can occur without involving a change in general trend. Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth (p. 49).

The staff analysis estimated that the January 1956 Economic Report and the budget probably implied a demand for gross national product in 1956 of $400 billion, stated in terms of prices prevailing in the fourth

[5] Ibid. On page 34, it states: "It would appear that the improvement in output per employee man-hour which occurred in 1956 was not only less than the rise in 1955 but less than the average recorded for the postwar period."

At the hearings Ewan Clague testified that changes in labor force and productivity do not change uniformly from year to year. See Hearings, pp. 86–87:

"Out of the many facts which we know about the labor force, the one which I find most significant at the moment is that its growth in any one year cannot be predicted with any certainty. As chart No. 1 shows, there was no year from 1950 to 1956 during which actual labor force changes were the same as the amounts that might have been expected. However, as the second chart shows, over a span of years the actual additions to the working force have in fact matched the amounts expected by the technicians. This, I believe, highlights one of the conclusions which can be drawn from the data for 1956: growth in the economy does not occur on a straight-line year-after-the-year basis.

* * * * * * *

"When we come to the subject of productivity we discover that what I said about labor force, that almost anything can happen in a single year, is even more true. It is characteristic of productivity trends that they do not move uniformly from year to year. A year of rapid expansion may be followed by one of leveling off."

quarter of 1955.[6] This figure must be adjusted in two ways to make it comparable to the actual figures for 1956.

First, it must be raised by about 1 percent, or $3.7 billion, to allow for revisions in July 1956 of the 1955 benchmark data from which the projections were made a year ago. Second, it must be raised by about 2.3 percent, or $9.3 billion, to adjust for price increases in 1956. Combined, these adjustments increase the assumed GNP for 1956 to $413.0 billion.

The preliminary figure for 1956 presented in the January 1957 Economic Report is $412.4 billion.[7] This is $0.6 billion, or less than 0.2 percent, below the GNP assumption of a year ago, when adjusted as indicated for revisions in data and rises in prices. The staff considers this difference to be negligible since it is far smaller than the possible future revisions of the preliminary data for 1956 now available.

Demand assumptions of January 1956 versus actual

[In billions of dollars]

Gross national product: Assumed January 1956	400. 0
Adjustments for:	
Revision of 1955 benchmark data	3. 7
Increase in prices over 4th quarter, 1955	9. 3
Adjusted gross national product	413. 0
Gross national product: Preliminary January 1957	412. 4
Amount actual below January 1956 assumption	—. 6
Percent	—. 15

The shortcoming of the analysis as a basis for policy in 1956 was the failure to place sufficient emphasis on the prospects for continued price rises. That this possibility was apparent to some experts was pointed out in the staff materials of a year ago. For example, the staff materials stated:

> * * * Taking all factors into account, including the working through to the retail level of price increases already in effect at the wholesale level, some experts now expect a further moderate rise in the general level of prices into at least the first half of this year.[8]

Also:

> At the same time, the hazard must be faced that too persistent and too strong an effort to avoid even temporary departures from a desirable long-run rate of growth may make the economy so rigid, may build in such an inflationary tendency, that the danger of spiraling prices may quickly become the paramount problem. The sharp rise in industrial prices in the latter half of 1955, when unemployment dropped below 4 percent, seasonally adjusted, and output rose above the staff-computed long-term trend, suggests the danger to be kept in mind.[9]

[6] Mr. George Humphrey, Secretary of the Treasury, stated the economic assumptions underlying the estimates of receipts in the January 1956 budget in Hearings on the January 1956 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 2d sess., p. 82.

[7] January 1957 Economic Report of the President, table E–1, p. 123.

[8] Report of the Joint Committee on the Economic Report on the January 1956 Economic Report of the President, S. Rept. 1606, 84th Cong., 2d sess., p. 97.

[9] Ibid., pp. 83–84.

The staff followed this about 6 weeks later, on April 18, 1956, in a memorandum to the committee,[10] which stressed the inflationary aspects of the situation, particularly in the following passages:

> Prices continued to increase during early months of 1956 at about the rate prevailing since June 1955. Overall price indexes show less rise than many components since lower prices of crude foods and raw materials have been offsetting increases in finished goods and services. The recent 6 percent increase in railroad freight rates and steel price rises now in prospect are among the harbingers of continued price rises during the year.
>
> * * * * *
>
> On balance, the changes in economic indicators in recent months reinforce the view that overall restrictive governmental policy continues to be warranted. As always, there are factors which may be pointed to on the deflationary side. These seem to be outweighed, however, by other considerations.
>
> Some of the present inflationary forces do not appear to be sustainable, and if not now restrained, give prospect of creating maladjustments. The recent rises in industrial prices, stock market prices, inventory accumulation, and bank credit expansion are cases in point. The force of these upward pressures, coupled with foreseeable further increases in steel and other prices, freight rates, and wage rates tend to fan the inflationary forces into a speculative over-exuberance which increases the risks of reversal if allowed to run undampened.
>
> Given this preponderance of inflationary influences at the moment, what are the implications for public policy in the monetary and fiscal fields?

[10] Staff Memorandum, dated April 18, 1956, The Economic Situation and Outlook. (See Hearings on the January 1957 Economic Report of the President, pp. 616–618.)

APPENDIX

Checklist of Publications of the Joint Economic Committee [1]

January 1947—March 1957

**Declaring a National Policy on Employment, Production, and Purchasing Power* (Report of the Joint Committee on the Economic Report), Senate Report No. 11: January 1947.

Food Prices. Production, and Consumption (Report of the Joint Committee on the Economic Report), Senate Document 113: April 1947.

*Hearings on Current Price Developments and the Problem of Economic Stabilization (June 24, 25, 26, July 2, 8, 9, 10, 14, 15, 16, and 17, 1947): July 1947.

**Interim Report on the President's Program To Deal with the Problems of Inflation* (Report of the Joint Committee on the Economic Report), Senate Report 809: December 1947.

*Hearings on Anti-inflation Program as Recommended in the President's Message of November 17, 1947 (November 21, 24, 25, 26, 28, December 2, 3, 4, 5, and 10, 1947): December 1947.

**Allocation and Inventory Control of Grain for the Production of Ethyl Alcohol* (Report of the Joint Committee on the Economic Report), Senate Report 888: February 1948.

*Hearings on Allocation of Grain for Production of Ethyl Alcohol (February 5 and 6, 1948): February 1948.

High Prices of Consumer Goods (Report of the Joint Committee on the Economic Report), Senate Report 1565: June 1948.

Hearings on Increases in Steel Prices (March 2, 1948).

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1948 Economic Report of the President), Senate Report 1358: May 1948.

*Hearings on Credit Policies (April 13 and 16, May 12, 13, 27, 1948): July 1948.

**Statistical Gaps, Current Gaps in Our Statistical Knowledge* (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: July 1948.

Consumers' Price Index (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: December 1948.

*Hearings on Profits (December 6, 7, 8, 9, 10, 15, 16, 17, 20, 21, 1948): December 1948.

Profits (Report of a Subcommittee of the Joint Committee on the Economic Report on Profits Hearings), committee print: February 1949.

[1] Single copies of the publications listed may be obtained from the Joint Economic Committee except as otherwise noted. Additional copies of committee publications may be purchased from the Superintendent of Documents Washington 25, D. C., at the price given. The prices shown are for single copies. There is a discount for quantity orders. Out-of-print publications are denoted by an asterisk.

Hearings, January 1949 Economic Report of the President (February 8, 9, 10, 11, 14, 15, 16, 17, 18, 1949): March 1949.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), Senate Report 88: March 1949.

Joint Economic Report (minority views of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.

Employment and Unemployment (initial report of the Subcommittee on Unemployment), committee print: July 1949.

**Economy of the South* (the impact of Federal policies on the economy of the South), committee print: July 1949.

Factors Affecting the Volume and Stability of Private Investment (materials on the investment problem assembled by the staff of the Subcommittee on Investment) Senate Document 232 (sale price, 60 cents): September 1950; reprinted from committee print of October 1949.

*Hearings, Subcommittee on Monetary, Credit, and Fiscal Policies, Federal Expenditure and Revenue Policies, September 23, 1949 (containing National Planning Association reports prepared by Conference of University Economists): October 1949.

**Selected Government Programs Which Aid the Unemployed and Low-Income Families* (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families), committee print: November 1949.

Low-Income Families and Economic Stability (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families), Senate Document 231 (sale price, 35 cents): September 1950; reprinted from committee print of November 1949.

Compendium of Materials on Monetary, Credit, and Fiscal Policies (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others), Senate Document 132 (sale price, $1): January 1950; reprinted from committee print of November 1949

Hearings, Subcommittee on Investment, Volume and Stability of Private Investment, Part 1 (September 27, 28, 29, 1949): November 1949.

Basic Data Relating to Steel Prices (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings), committee print: January 1950.

Highways and the Nation's Economy (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145 (sale price, 20 cents): January 1950.

*Hearings, Subcommittee on Monetary, Credit, and Fiscal Policies, Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949): January 1950.

Monetary, Credit, and Fiscal Policies (Report of the Subcommittee on Monetary, Credit, and Fiscal Policies), Senate Document 129 (sale price, 15 cents): January 1950.

**Employment and Unemployment* (Report of the Subcommittee on Unemployment), Senate Document 140 (sale price, 30 cents): February 1950.

*Hearings, Subcommittee on Investment, Volume and Stability of Private Investment, Part 2 (December 6, 7, 8, 9, 12, 13, 14, 15, 17, 1949): February 1950.

Hearings, Subcommittee on Low-Income Families, Low-Income Families (December 12, 13, 14, 15, 16, 17, 19, 20, 21, 22): March 1950.

*Hearings, January 1950 Economic Report of the President (January 17, 18, 19, 20): February 1950.

Hearings, December 1949 Steel Price Increases (January 24, 25, 26, 27): March 1950.

**Low-Income Families and Economic Stability* (final report of the Subcommittee on Low-Income Families), Senate Document 146 (sale price, 15 cents): March 1950.

Volume and Stability of Private Investment (final report of the Subcommittee on Investment), Senate Document 149 (sale price, 15 cents): March 1950.

December 1949 Steel Price Increases (Report of the Joint Committee on the Economic Report), Senate Report 1373 (sale price 20 cents): March 1950.

Handbook of Regional Statistics (material assembled by the staff of the Joint Committee on the Economic Report), committee print (sale price $1): April 1950.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President), Senate Report 1843 (sale price 35 cents): June 1950.

General Credit Control, Debt Management, and Economic Mobilization (materials prepared by the staff of the Joint Committee on the Economic Report), committee print (sale price 25 cents): January 1951.

Underemployment of Rural Families (materials prepared by the staff of the Joint Committee on the Economic Report), committee print (sale price 20 cents): February 1951.

The Economic and Political Hazards of an Inflationary Defense Economy (materials prepared by the staff of the Joint Committee on the Economic Report), committee print (sale price 30 cents): February 1951.

Hearings, January 1951 Economic Report of the President (January 22, 24, 25, 26, 29, 31, February 2): March 1951.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President), Senate Report 210 (sale price 30 cents): April 2, 1951.

Making Ends Meet on Less Than $2,000 a Year, Case Studies of 100 Low-income Families (communication to the Joint Committee on the Economic Report from the Conference Group of Nine National Voluntary Organizations Convened by the National Social Welfare Assembly), committee print (sale price 35 cents): July 1951.

Prevalence of Price Cutting of Merchandise Marketed Under Price-Maintenance Agreements, May 28 through June 25, 1951 (study prepared for the Joint Committee on the Economic Report and the Select Committee on Small Business), committee print: July 1951.

The Need for Industrial Dispersal (materials prepared for the Joint Committee on the Economic Report by the committee staff), Senate Document 55 (sale price 30 cents): August 1951.

**National Defense and the Economic Outlook* (materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: August 1951.

Inflation Still a Danger (report of the Joint Committee on the Economic Report together with materials on national defense and the economic outlook included in committee print mentioned above), Senate Report 644 (sale price 15 cents): August 1951.

Questions on General Credit Control and Debt Management (prepared by staff of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report), committee print (sale price 15 cents): October 1951.

Monetary Policy and the Management of the Public Debt. Their Role in Achieving Price Stability and High-Level Employment (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management) (sale price: Part I, $1.75; Part II, $2.50): February 1952.

Hearings, January 1952 Economic Report of the President (January 23, 24, 25, 26, 28, 30, 31, February 1) (sale price $1.25): February 1952.

Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates (materials assembled for the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives), committee print (sale price 15 cents): February 1952.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1952 Economic Report of the President together with National Defense and the Economic Outlook for the Fiscal Year 1953, materials prepared for the Joint Committee on the Economic Report by the Committee staff), Senate Report No. 1295 (sale price, 35 cents): March 1952.

The Taxation of Corporate Surplus Accumulations, The Application and Effect, Real and Feared, of Section 102 of the Internal Revenue Code dealing with Unreasonable Accumulation of Corporate Profits (study prepared for the Joint Committee on the Economic Report by Dr. J. K. Hall), committee print (sale price 55 cents): May 1952.

*Hearings, Subcommittee on General Credit Control and Debt Management, Monetary Policy and the Management of the Public Debt (March 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, and 31, 1952) (sale price $2.25); May 1952.

Monetary Policy and the Management of the Public Debt (Report of the Subcommittee on General Credit Control and Debt Management) Senate Document No. 163 (sale price 25 cents): July 1952.

Federal Tax Changes and Estimated Revenue Losses under Present Law (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print: November 1952.

Sustaining Economic Forces Ahead (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 20 cents): December 1952.

Pensions in the United States (A Study prepared for the Joint Committee on the Economic Report by the National Planning Association), committee print (sale price 30 cents): December 1952.

Index of Joint Economic Publications: January 1947 through December 1952. Committee print (sale price 55 cents): January 1953.

**Historical and Descriptive Supplement to Economic Indicators* (sale price 30 cents): December 1953.

Hearings, January 1954 Economic Report of the President (February 1, 2, 3, 4, 5, 8, 9, 10, 11, 15, 16, 17, 18) (sale price: $3.00): March 1954.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the 1954 Economic Report of the President), House Report No. 1256 (sale price 30 cents): February 1954.

Hearings, Subcommittee on Economic Statistics, Economic Statistics (July 12 and 13, 1954) (sale price $1.50): August 1954.

Economic Statistics (Progress Report prepared by the Subcommittee on Economic Statistics). House Report No. 2628: August 1954.

Congressional Action on Major Economic Recommendations of the President, 1954 (Materials prepared by the Joint Committee on the Economic Report by the Committee Staff), committee print: September 1954.

Potential Economic Growth of the United States During the Next Decade (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 15 cents): October 1954.

Hearings, Subcommittee on Economic Stabilization, United States Monetary Policy: Recent Thinking and Experience (December 6 and 7, 1954) (sale price $1.25): December 1954.

Trends in Economic Growth, A Comparison of the Western Powers and the Soviet Bloc (Materials prepared for the Joint Committee on the Economic Report by the Legislative Reference Service of the Library of Congress), committee print (sale price $1): January 1955.

*Hearings, January 1955 Economic Report of the President (January 24, 26, 27, 28, 31, February 1, 2, 3, 8, 9, 10, and 16, 1955) (sale price $3.50): February 1955.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the 1955 Economic Report of the President), Senate Report No. 60 (sale price 30 cents): March 1955.

Historical and Descriptive Supplement to Economic Indicators (sale price 40 cents): November 1955.

Hearings, Subcommittee on Economic Stabilization, Automation and Technological Change (October 14, 15, 17, 18, 24, 25, 26, 27, and 28, 1955) (sale price $2.00): November 1955.

Automation and Technological Change (Report of the Subcommittee on Economic Stabilization) committee print, November 1955 (sale price 10 cents): became Senate Report No. 1308, January 1956.

Hearings, Subcommittee on Economic Statistics, Reports of Federal Reserve Consultant Committees on Economic Statistics (July 19 and 26, October 4 and 5, 1955) (sale price $2.25): November 1955.

Hearings, Subcommittee on Economic Statistics, Employment and Unemployment Statistics (November 7 and 8, 1955) (sale price 45 cents): November 1955.

1955 Report on Economic Statistics (Report of the Subcommittee on Economic Statistics) committee print, November 1955 (sale price 15 cents): became Senate Report No. 1309, January 1956.

Federal Tax Policy for Economic Growth and Stability (Papers submitted by panelists appearing before the Subcommittee on Tax Policy), committee print (sale price $2.50): November 1955.

Hearings, Subcommittee on Tax Policy, Federal Tax Policy for Economic Growth and Stability (December 5, 6, 7, 8, 9, 12, 13, 14, 15, and 16, 1955) (sale price $2.00): January 1956.

Federal Tax Policy for Economic Growth and Stability (Report of the Subcommittee on Tax Policy) committee print, December 1955 (sale price 10 cents): became Senate Report No. 1310, January 1956.

The Federal Revenue System: Facts and Problems (Materials assembled for the Subcommittee on Tax Policy by the Committee Staff), committee print (sale price 55 cents): January 1956.

Characteristics of the Low-Income Population and Related Programs (Materials prepared by the staff of the Subcommittee on Low-Income Families), committee print (sale price 60 cents): October 1955.

Hearings, Subcommittee on Low-Income Families, Low-Income Families (November 18, 19, 21, 22, and 23, 1955) (sale price $2.00): December 1955.

A Program for the Low-Income Population at Substandard Levels of Living (Report of the Subcommittee on Low-Income Families), committee print, December 1955 (sale price 10 cents); became Senate Report No. 1311, January 1956.

Hearings, Subcommittee on Foreign Economic Policy, Foreign Economic Policy (November 9, 10, 14, 15, 16, 17, 1955) (sale price $1.75): December 1955.

Foreign Economic Policy (Report of the Subcommittee on Foreign Economic Policy), committee print, December 1955 (sale price 15 cents); became Senate Report No. 1312, January 1956.

Hearings, January 1956 Economic Report of the President (January 31, February 1, 2, 3, 6, 7, 8, 9, 14, 15, 17, and 28, 1956) (sale price $2.00): March 1956.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the 1956 Economic Report of the President): Senate Report No. 1606 (sale price 35 cents): March 1956.

Hearings, Subcommittee on Economic Stabilization, Conflicting Official Views on Monetary Policy: April 1956 (June 12, 1956) (sale price 20 cents): June 1956.

Hearings, Subcommittee on Foreign Economic Policy, Defense Essentiality and Foreign Economic Policy (June 4, 5, 6, and 7, 1956) (sale price $1.50): July 1956.

Defense Essentiality and Foreign Economic Policy, Case Study: Watch Industry and Precision Skills (Report of the Subcommittee on Foreign Economic Policy), Senate Report No. 2629, Parts I and II (sale price 15 cents with Part II): July 1956.

Hearings, Subcommittee on Economic Stabilization, Monetary Policy: 1955–56 (December 10 and 11, 1956) (sale price 45 cents): January 1957.

Hearings, Subcommittee on Foreign Economic Policy, World Economic Growth and Competition (December 10, 12, and 13, 1956) (sale price 45 cents): February 1957.

Hearings, Subcommittee on Economic Stabilization, Instrumentation and Automation (December 12, 13, and 14, 1956) (sale price 75 cents): February 1957.

Employment Act of 1946, as Amended, and Related Laws, and Rules of the Joint Economic Committee (prepared by staff of the Joint Economic Committee) committee print: 1957.

Hearings, January 1957 Economic Report of the President (January 28, 29, 30, 31, February 1, 4, 5, 6) (sale price $2.25): February 1957.

Joint Economic Report (Report of the Joint Economic Committee on the 1957 Economic Report of the President): H. Rept. No. 175 (sale price 25 cents): February 1957.

Economic Indicators (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (sale price 20 cents a copy, $2.00 a year): Issued monthly.