Union Calendar No. 228

85th Congress, 1st Session - - - - - House Report No. 647

FISCAL POLICY IMPLICATIONS OF THE ECONOMIC OUTLOOK AND BUDGET DEVELOPMENTS

REPORT

OF THE

JOINT ECONOMIC COMMITTEE

TO THE

CONGRESS OF THE UNITED STATES

JUNE 26, 1957.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
86006 WASHINGTON : 1957

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

WRIGHT PATMAN, Representative from Texas, *Chairman*
JOHN SPARKMAN, Senator from Alabama, *Vice Chairman*

HOUSE OF REPRESENTATIVES	SENATE
RICHARD BOLLING, Missouri	PAUL H. DOUGLAS, Illinois
WILBUR D. MILLS, Arkansas	J. WILLIAM FULBRIGHT, Arkansas
AUGUSTINE B. KELLEY, Pennsylvania	JOSEPH C. O'MAHONEY, Wyoming
HENRY O. TALLE, Iowa	RALPH E. FLANDERS, Vermont
THOMAS B. CURTIS, Missouri	ARTHUR V. WATKINS, Utah
CLARENCE E. KILBURN, New York	BARRY GOLDWATER, Arizona

JOHN W. LEHMAN, *Acting Executive Director*

SUBCOMMITTEE ON FISCAL POLICY

WILBUR D. MILLS, Arkansas, *Chairman*

PAUL H. DOUGLAS, Illinois
JOSEPH C. O'MAHONEY, Wyoming
BARRY GOLDWATER, Arizona
THOMAS B. CURTIS .Missour

NORMAN B. TURE, *Economist*

CONTENTS

Union Calendar No. 228

85TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 647

FISCAL POLICY IMPLICATIONS OF THE ECONOMIC OUTLOOK AND BUDGET DEVELOPMENTS

JUNE 26, 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

[Pursuant to sec. 5 (a) of Public Law 304 (79th Cong.)]

The following report of the Joint Economic Committee prepared by the Subcommittee on Fiscal Policy was approved for transmission to the Congress by the full committee. The subcommittee is composed of Representative Wilbur D. Mills, chairman, Senators Paul H. Douglas, Joseph C. O'Mahoney, and Barry Goldwater, and Representative Thomas B. Curtis. The report sets forth the subcommittee's findings with respect to the broad outlines of fiscal action during the fiscal year 1958, which on the basis of both economic and budget prospects would be consistent with the Employment Act objectives of economic growth and stability.

INTRODUCTION

The Subcommittee on Fiscal Policy of the Joint Economic Committee conducted hearings on June 3–7, 13–14, 1957, on the fiscal policy implications of the economic outlook and budget developments. The purpose of these hearings was to examine the facts concerning current and prospective economic and budget developments upon which sound, responsible fiscal policy, consistent with the economic growth objectives of the Employment Act, should be based.

Discussion with 33 non-Government experts and with the Director of the Bureau of the Budget, the Secretary of the Treasury, and the Chairman of the Board of Governors of the Federal Reserve System focused on: (1) the current economic situation and prospects for the remainder of 1957 and for 1958; (2) the effect of current congressional and administrative efforts to reduce spending on the prospective budget surplus in fiscal 1958 and on levels of economic activity in 1957–58; (3) types of fiscal action consistent with economic stability and growth if spending reductions are achieved; and (4) the timing of fiscal action in relation to budgetary and economic developments. These discussions were directed toward the broad outlines of fiscal action which would best contribute to the setting within which our enterprise economy can proceed on a steady and noninflationary course of economic growth. Responsible fiscal policy calls for revenues adequate to finance Government activities, including debt management, in a manner which will contribute to economic stability and growth.

FINDINGS OF THE SUBCOMMITTEE ON FISCAL POLICY

Inflation is a grave economic problem facing the American economy today. Failure to deal with it forthrightly will result in increasing hardships for millions of Americans. It will impose the costs of economic instability on future generations by making achievement of steady economic progress increasingly difficult.

The rapid expansion of Federal Government spending in recent years, coming on top of sharp increases in consumption and investment in the private sectors of the economy, has contributed significantly to current inflationary pressures. Present fiscal and monetary restraints, such as the extension of tax rates otherwise scheduled for reduction, the application of modest surpluses to debt retirement, and general controls for restricting increases in the supply of credit, have not been fully effective in curbing pressures for widespread price increases.

Public policies must face up squarely to the problem of inflation. Restraining inflation never has been and never will be an easy job. It requires making hard decisions in public policies to contend with problems which may become increasingly complex. The current difficulties in management of the Federal debt offer an impressive example. Demands for immediate and substantial tax reduction and for more freely available credit are others. Steady economic growth and stable prices, however, will not be achieved unless we are guided by appraisal of the findings of objective and dispassionate inquiries.

The subcommittee's findings are:

(1) The economic outlook for the remainder of 1957 and early 1958 suggests continued increases in output and income. Although somewhat less buoyant than in 1956, total demand shows sufficient strength in widespread sectors of economic activity to point to continuing upward pressures on prices. Modest, e. g., $1 billion to $2 billion, reductions in Federal spending, with corresponding increases in the budget surplus in fiscal 1958, would not significantly affect these prospects.

At the same time, a number of soft spots in the economy emphasize the need for continuing alertness to possible changes in overall levels of economic activity which may require revisions in current public policies.[1] A downturn in economic activity would call for easing restraints. If relaxation of present general credit controls should prove inadequate to prevent a continuing decline in employment and output, general tax reduction should be provided.

(2) Barring an economic downturn, which seems unlikely at this time, tax reductions or easing monetary restraints in fiscal year 1958 should be based on realization of substantial, e. g., $3 billion to $5 billion, reductions in Federal expenditures during the year, if renewed acceleration of widespread price increases is to be avoided. The achievement in fiscal 1958 of such reductions in actual Federal spending below the January 1957 estimates would call for tax reductions effective with respect to a part of fiscal 1958, certainly not later than the beginning of fiscal 1959. Present prospects indicate a somewhat smaller surplus in fiscal 1958 than the $1.8 billion estimated in the President's January 1957 budget message. Rising prices, particularly for defense goods and services, appear to be largely responsible for the downward adjustment in the estimated surplus.

Under present conditions of high levels of employment and output, any modest surplus in the Federal budget should be applied to debt reduction. In addition to facilitating public debt management, this use of a budget surplus will reduce the demands imposed on monetary policy as a means of restraining inflationary pressures.

(3) In order to justify tax reduction under conditions of steady economic growth, more remains to be done by the Congress and the administration with respect to actual Federal spending in fiscal 1958 than has been accomplished to date. Actions so far undertaken by the Congress and the administration with respect to the President's 1958 budget proposals hold little promise for reduction in actual Federal spending in fiscal 1958. In several cases, these actions represent revisions of the estimated costs of specific programs presented in the President's January 1957 budget message. In other cases, appropriations have been cut without changing existing program obligations of the Federal Government, so that supplemental or deficiency appropriations will subsequently be necessary. Moreover, reductions in appropriations for fiscal 1958 may, in a number of cases, have little effect on actual expenditures during the year because of the carryover from fiscal 1957 of existing but unused obligational authority. In their efforts to reduce Federal spending, the Congress and the administration should recognize that decreases in budget estimates do not necessarily result in decreases in actual Government outlays.

(4) Several Federal spending programs appear to contain built-in expansion features. Federal Government commitments for old-age assistance, social-security benefits, and highway expenditures are but a few examples of Federal programs which will increase under present law provisions. Refunding maturing issues of the public debt may be expected to result in increases in interest costs, so long as the present tight money conditions persist. In addition, cost and price increases tend to result in increasing levels of Federal spending, even when no change in real terms is made in existing programs. Merely continuing

[1] Senator O'Mahoney wishes to add:
"Notable soft spots are present in the areas of agriculture and small business. Huge Government appropriations to take agricultural surpluses out of the market. instead of a constructive legislative solution that would make agriculture a self-supporting segment of the economy, and the rising rate of bankruptcy in the field of small business, are warning signals that cannot safely be ignored. In these two areas taxpayers who ought to be contributing to the tax receipts of the Government are not earning incomes upon which taxes can be paid."

present programs, therefore, may well result in rising levels of Federal spending over the next several years.

(5) Substantial reductions in Federal spending in fiscal 1958 and subsequent years will require downward revision of existing programs as well as forgoing new expenditures. Rising prices and costs, particularly in defense spending, suggest that such revisions may well be necessary even to hold fiscal 1958 expenditures to the level estimated in the President's budget message of January 1957.

(6) Many important considerations, other than those of maintaining stability in the general price level and a high rate of economic growth, enter into decisions about the kind and magnitude of Federal spending programs. It should be recognized, however, that under present economic conditions, widespread demands for tax reductions cannot be met without inflationary consequences unless Government spending is prevented from rising as rapidly as revenues. The Congress and the administration, therefore, should increase their efforts to find means for reducing the scope of present Federal spending programs. These efforts will have to go beyond elimination of waste and inefficiency. Close review of the substance of present programs, prospects for their future expansion or contraction, and their contributions to the Nation's economic progress compared with private uses of the resources they demand will be necessary to effect major reductions in Federal expenditures.

More than 60 percent of estimated budget expenditures for fiscal 1958, as proposed in the President's January 1957 budget message, is for major national security programs, including expenditures abroad. The Joint Economic Committee repeatedly has pointed out that our economy can support such heavy defense programs while increasing productive capacity and living standards in the private sectors of the economy. Nevertheless, national security expenditures require the use of large amounts of resources which might add significantly to the rate of economic growth. A prime objective of the Congress and the administration, therefore, should be to achieve the highest possible level of military competence at the least possible cost in terms of resources used.

Reductions in Federal spending should be carefully determined to avoid weakening our national security preparations and those Federal Government activities which contribute most to developing the material and human resources essential for economic growth. On the other hand, there need be little concern about possible adverse effects on the level of total economic activity resulting from imposing effective restraints on expansion of Federal expenditures. Appropriate tax and credit policy changes can provide adequate increases in private demand to afford employment for additions to the labor force and to plant and equipment, and also for any resources released through decreased Federal spending. Indeed, since continuation of the postwar average rate of growth in gross national product may be expected to produce about $3 billion annually in additional revenue, preventing further growth in Federal spending will permit substantial tax reductions contributing to a growing level of private demand.

(7) Present inflationary pressures frequently are attributed to the so-called cost-price push, as distinct from the traditional inflation resulting from excessive demand. Whether or not this distinction is valid, it is evident that general price increases can occur without

increasing unemployment only if demand is adequate to support the higher price level. The basic problem is an inadequate level of savings out of current income. An ever-increasing volume of real savings is needed to meet the economy's requirements for replacement of plant and equipment under inflated prices and for growth based upon full exploitation of rapid technological advances. Fiscal and monetary policies should be directed toward encouraging a higher level of voluntary real savings under the present conditions of inflationary pressure.

Since these objectives have not been fully accomplished, public policies to cope with increases in the price level must take the form of general fiscal and monetary restraints on the expansion of total spending. It is recognized that the burden of such restraints may not be evenly distributed throughout the economy. The burden of inflation, however, is far more inequitably distributed. The alternative to general fiscal and credit controls is some form of direct Government control over wage and price determination. The use of this type of control would produce results as bad, if not worse, than the inflation against which it would be directed, and should be avoided.

(8) The long-run growth conditions of our dynamic economy call for constant attention to revision of the Federal revenue structure. Structural changes which broaden the tax base and improve the fairness of our tax laws would permit substantial reductions in tax rates while maintaining necessary revenues and would contribute to steady economic growth. Such revision is a continuing responsibility of the administration and of the tax committees of the Congress. The timing of such revisions must give due consideration to the Government's revenue requirements and to economic conditions. Ill-timed structural changes may defeat their long-run objectives by promoting economic instability.

O