86TH CONGRESS 1st Session } SENATE { REPORT No. 98

1959 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1959 ECONOMIC REPORT OF THE PRESIDENT

WITH

MINORITY AND OTHER VIEWS

AND

THE ECONOMIC OUTLOOK FOR 1959 PREPARED BY THE COMMITTEE STAFF

MARCH 9, 1959.—Ordered to be printed with illustrations

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

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JOINT ECONOMIC COMMITTEE REPORT ON THE JANUARY 1959 ECONOMIC REPORT OF THE PRESIDENT

MARCH 9, 1959.—Ordered to be printed with illustrations

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

REPORT

together with

MINORITY AND OTHER VIEWS

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

FINDINGS AND RECOMMENDATIONS

OBJECTIVES OF EMPLOYMENT ACT

Under the Employment Act of 1946, the Federal Government has the responsibility to use all the means at its disposal to promote maximum employment, production, and purchasing power. To meet these objectives requires (1) expansion of the Nation's productive capacity, (2) a high and steady rate of use of labor and material resources, and (3) a high degree of stability in the general level of prices. These are coordinate objectives of public policy; pursuit of any one without due regard to the others would be a failure to comply with the sense and spirit of the Employment Act's mandate.

Changing economic circumstances call for shifts in the relative emphasis to be given each of these objectives. In periods of rapid growth and high employment, for example, considerable emphasis may well have to be placed on curbing inflationary strains, while in periods of recession major emphasis clearly should be on restoring conditions of maximum employment and production.

There are, of course, divergent views about which of these objectives should receive most emphasis. Some stress price stability at the expense of substantially full employment and adequate growth. Others would stress substantially full employment and growth at the expense of price stability. Yet we know that a too persistent and singleminded pursuit of any one objective to the exclusion of the others in the face of changing economic conditions will, over the long run, prevent us from adequately realizing any of these objectives.

In an attempt to reconcile these objectives and to find the means by which all three of them may be realized simultaneously, this committee will undertake a thorough and impartial study of our economy following the submission of this report to the Congress. Among the subjects which it plans to investigate are:

1. Historical and comparative rates of unemployment, production, and prices.
2. Inflation and deflation caused by increases and decreases in the effective supply of money and credit and the effects of these and of interest rates on growth, employment, and economic stability.
3. The effect of monopolistic and quasi-monopolistic practices upon prices, profits, production, and employment.
4. The effect of increases in wages, salaries, and the prices of personal services, together with union and professional practices, upon prices, profits, production, and employment.
5. The effect of governmental expenditures, taxation, and budgetary surpluses and deficits and of monetary and debt management policies upon price levels, production, and employment.
6. International influences affecting prices, production, trade, and employment.
7. Constructive suggestions for reconciling and simultaneously attaining the three objectives of maximum employment, an adequate rate of growth, and substantial stability of the price level.

The study will be under the general direction of the committee as a whole, although specific task forces may be created to deal with subdivisions of the fields of inquiry. A bipartisan steering committee has been appointed.

The following comments and suggestions are therefore necessarily tentative in nature and subject to later revision if further evidence should seem to require it. Yet Congress has to act in the months immediately ahead on the budget, tax policy, defense, and also many other problems. We cannot refuse to make tentative decisions merely because all the evidence is not yet in. We would do well to remember, therefore, the words of Justice Holmes:

> Every year, if not every day, we have to wager our salvation upon some prophecy based upon imperfect knowledge.

In the light of available information, we are recommending policies for the immediate future which we believe are justified on the basis of the facts as we understand them and on the basis of sound economic and social reasons. A further examination of these matters will necessarily follow with more intensive study of the economic situation of our country and of our times. We shall not be afraid to alter our judgments if this should seem to be advisable.

EXPERTS SEE PROSPECT FOR RELATIVELY STABLE PRICES IN 1959

The consensus of the expert testimony presented to the committee in its hearings on the President's Economic Report was that substantial stability in the price level will be realized in 1959. The view of these witnesses was that the increase in total money demand this year would probably not be great enough to pull prices upward, Moreover, the increase in corporate profits in 1959 assumed by the Treasury in its estimates of tax receipts for fiscal 1960 suggests that unit wage costs will not rise materially or may even fall and will not exert, on the whole, any significant upward pressure on prices. On the basis of the testimony and the facts, maintaining stability in the price level will probably require less emphasis in Federal economic policies in 1959 than the other objectives of the Employment Act.

Since the beginning of World War II, the American economy has upon occasion experienced classical inflation, with too much money chasing too few goods—for example in the immediate postwar years and again following the outbreak of hostilities in Korea. However, from the latter half of 1948 through the first half of 1950 and again from the middle of 1951 through the first half of 1955, reasonable stability in the general price level was realized. The rise in prices from the end of 1955 until early 1958 reflects widely diverse price movements, dominated, however, by strong and persistent increases in the prices of services and a large number of industrial products, particularly those in the concentrated industries. Since early 1958, opposing price movements have roughly canceled each other, so that a high degree of stability in prices overall has been achieved.

Examination of the facts belies the widespread impression that the economy has been persistently plagued since the end of the war with "classical" inflationary pressures. Clearly this has not been true during most of the past year and during a substantial part of the postwar period. Over the entire period since 1948, the cost of living has increased far less in the United States than in most of Western Europe. Although assuredly American performance in the realization of this objective of public economic policy could have been improved upon, it compares quite favorably with that of most of the world's advanced economies.

Economic prospects, however, are subject to abrupt change. Those responsible for public economic policies must remain alert, therefore, to the possibility of a resurgence of inflationary pressure, and must be prepared to deal promptly with any such development. Until evidence of an imminent inflationary threat can be clearly seen, however, a reasonable and sane public policy aimed at promoting maximum employment and production and vigorous expansion of the economy should not be unduly deterred by the possibility of future inflation.

ACHIEVING MAXIMUM EMPLOYMENT SHOULD BE EMPHASIZED IN 1959

On the basis of the present economic outlook, principal emphasis in public policy this year should be placed on prompt and full recovery from the 1957–58 recession. Achieving maximum employment and production, therefore, should be given the highest priority.

The most recent data show that full-time unemployment in January was 4,724,000 or 6 percent, seasonally adjusted. Adding the full-time equivalent of involuntary part-time unemployment raises total unemployment by another million. Between 7.2 and 7.3 percent of our labor force, therefore, was unemployed in January this year. At the same time, a substantial proportion of the Nation's plant and equipment was idle. In January, for example, the Federal Reserve

Board estimated that output of major materials-producing industries was about 78 percent of capacity.

The consensus of the witnesses appearing in the hearings is that while total economic activity will very likely continue to rise through 1959, the increase will not be adequate to provide substantially full employment by the end of the year. In view of the increase in productivity made possible by the heavy investment in new plant and equipment since 1955, a more rapid rate of expansion of production and employment is attainable in 1959 than is suggested in the estimates of the actual results for the year offered by the Government officials and other witnesses and implied in the budget and Economic Report. Realization of the $473 billion gross national product for 1959 as a whole, estimated by the Secretary of the Treasury, and the $482 billion fourth quarter 1959 annual rate implied thereby, would leave substantial slack in the use of both the labor force and physical capacity. Public economic policies this year should aim, therefore, at a somewhat more rapid rate of recovery. Such policies should be designed so as to produce their desired effects promptly and to avoid laying the groundwork for future inflation.

State unemployment compensation programs should be revised to take into account changes in employment conditions and the cost of living since these programs were developed or last revised. Uniform Federal standards with respect to the number of weeks of coverage, the ratio of benefits to wages, and other matters are badly needed. Furthermore, within a short time we should be able to determine the need to continue and improve the emergency unemployment compensation program.

A HIGHER RATE OF GROWTH OVER THE LONG RUN SHOULD BE EMPHASIZED

While proceeding vigorously to full recovery in 1959, major emphasis in public policy should also be placed on establishing the conditions for achieving and maintaining a higher rate of growth in total output and productivity than has been realized in recent years. Over a long period in the past, physical production (gross national product in real terms) has advanced at the rate of 3 percent per year, on the average.

From 1953 through 1957, our real gross national product has increased at an average annual rate of 2.5 percent. On a per capita basis, however, this rate of increase was only 0.7 percent and industrial production has grown by only 1.6 percent annually. These annual averages for recent years, of course, would be substantially lower if the data for 1958 were included.

Emphasis on economic growth has recently been challenged on the grounds that this seems to be concerned only with producing as impressive a statistical record as the Soviet Union. In any such competition, it is argued, the United States will be at a disadvantage by virtue of the Soviet's totalitarian concentration of economic activity in those lines, such as the basic industries, in which impressive statistical gains can be recorded because of the low base from which the Soviets begin, as compared with the United States. There is, of course, a certain degree of truth in these points. Yet if we measure U.S. experience against that of the free economies of Western Europe, we see that on the whole those countries have progressed much more rapidly in their growth rates than the United States since 1953.

The basis for according economic growth a high priority in our public policies, of course, is not just to match statistical records with any other nation. A realistic evaluation of the position of the United States as the leader of the free nations of the world, of our present and future defense requirements, of the legitimate demands of a growing population for public services, of the demands on our resources to raise the living standards of our low-income population—all these make plain the urgency of achieving higher rates of growth in the future. Every assertion that we cannot afford some otherwise desirable public program, or that we must curb expansion of private expenditures which will immediately or ultimately stimulate production in order to minimize inflationary pressures, affords further proof of the need to expand the volume of our resources and to increase productivity. Economic growth, with full employment and relatively stable prices, is the basic requisite for meeting the challenges the Nation faces. We must not reject these challenges because our resources at present are not fully adequate to meet all the demands imposed upon them. Constructive public policy, on the contrary, calls for proceeding as vigorously as possible today while making the utmost provision for increasing our capabilities tomorrow.

NEED FOR LESS RESTRICTIVE MONETARY POLICY IN 1959

Monetary and credit policy in the year ahead should contribute to economic recovery and reflect the need of an expanding economy for a growing money supply. It cannot be emphasized too strongly that with substantial idle capacity and unemployment remaining in the economy, expansion of the supply of money and credit, if properly managed, need not carry the threat of renewed inflation. When there is a large number of unemployed workers and idle plant and machines, increasing the quantity of money and credit can increase employment and production. Putting idle men to work on idle resources will increase physical production. This increase in output can offset any tendency toward higher prices which might result from the expansion in the supply of money and credit. In terms of the quantity theory of money, both sides of the equation can be increased simultaneously, and the effect on prices either neutralized or minimized.

On the other hand, failure to provide for adequate growth in the money and credit supply can pose a serious obstacle to realizing the employment, production, and economic growth objectives of public policy.

Since the end of 1954, the money supply has increased at an average annual rate of about 1½ percent. At the end of 1958, the volume of member bank reserves was substantially below the level available 4 years earlier. In large part, the limited expansion of the money supply reflects the efforts on the part of the monetary authorities to check inflationary price developments. Whatever the appropriateness of monetary and credit restraint in the period 1955–57, there appears to be little occasion in 1959 for comparable severity. On the contrary, a rigid continuation of the present degree of restraint may well increase materially the difficulties in achieving prompt and full economic recovery.

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For example, the quick response of housing activity to the moderation of credit and monetary restraints in late 1957 and early 1958 is generally agreed to have contributed to arresting contraction and to promoting upturn in total economic activity. Support for continuing recovery from this sector could easily turn into weakness if interest rates continue to rise. Merely removing the upper limits on mortgage rates in FHA- and VA-insured loans will not fully offset the adverse effect on housing activity resulting from monetary stringency.

Restrictive monetary and credit policies will aggravate the already formidable problems the Treasury faces in managing the public debt. Exploration and new thinking in managing our enormous public debt is required. This cannot be done solely by following traditional methods of finance. At present, for example, long-term Treasury bond offerings not only markedly drive down the prices of all Government bonds but raise no significant amount of funds either new or for refunding. For this and other reasons, investor confidence is shaken and foreign countries begin to query the stability of the dollar.

But how can one expect institutional investors able to get all the higher interest-paying Government-guaranteed mortgages that will fit in their portfolios to be interested in long-term governments? Nor will raising the interest rate avail except to raise rates of return on competing investments without adding any substantial amount to the total of liquid funds.

A fundamental reexamination of the problem of Federal debt management is urgently recommended.

A restrictive monetary and credit policy in 1959 will prove particularly burdensome to State and local governments. Many States and localities are faced this year with the need for sharp increases in borrowings. Rising interest costs will cut into the financial capabilities of these governments. Efforts to prevent transfer of responsibility for public services from the States and their subdivisions to the Federal Government must take due account of the contribution to this trend made by monetary and credit stringency.

Participation by small and new business in vigorous economic growth over the long run also calls for an easier monetary and credit environment than has prevailed since 1954. Unless an adequate supply of credit is provided to these businesses through general credit and monetary policies, it will be necessary to rely increasingly on differential tax provisions and specialized modifications of financial institutions, which complicate fiscal and monetary management and create opportunities for abuse.

While we urge a less restrictive monetary policy for the months immediately ahead, we are nonetheless acutely aware of the potential dangers of further inflation. Appreciable increases in prices reduce the real incomes of annuitants and holders of insurance policies and those whose incomes are based upon bonds. Salaried and unorganized workers may fall behind in the race. Strikes multiply. An unhealthy speculative fever creeps through society. We should, therefore, seek substantial stability in the price level.

There is consequently real need for effective control of the total money supply. We need to beware of allowing the active supply of money and credit (volume times velocity) to increase much more rapidly than the volume of goods and services for which money is given. But the managers of money and credit should not be so concerned about the possible future dangers as to ignore present high unemployment and unduly low growth rates.

In considering the dangers of inflation and its causes it is not enough merely to consider monetary policy. We also need to explore the degree to which increases in labor cost per unit of output cause increases in price and also the part caused by increased fabrication and additional transportation and distribution costs. Furthermore the whole question of administered and monopoly or quasi-monopoly prices should be gone into.

TAX REFORM URGED NOW

To provide the conditions for vigorous growth over the long run, we must make a start now on constructive reform of the Federal tax system. The desirability of tax reform does not depend on budgetary surpluses. Constructive tax revision means changing the tax laws to eliminate the present preferential provisions, providing thereby both greater uniformity in the applicability of taxes and a broader tax base.

A successful tax revision program poses no threat of increasing budget deficits.

Studies in recent years by the Tax Policy and Fiscal Policy Subcommittees of the Joint Economic Committee have described the broad outlines of constructive tax reform and the standards which should be observed. The basic goal should be that those with substantially the same incomes should pay substantially the same taxes. This is not now the case in far too many instances. Tax revision should be aimed at broadening the tax base in order to assure revenues adequate to defray the costs of Government. At the same time, our tax laws should be revised to assure minimum interference with expansion of productive capacity and with the operation of the marketplace in allocating productive resources among alternative lines of activity. Tax revision should seek to conform the distribution of individual tax burdens more closely with the Nation's preferences for eliminating great disparities in income and wealth. It should provide assurance that our tax laws do not encourage business concentration and that they do not discriminate against small and new businesses or against venturesome enterprises. Tax reform should prevent the use of the tax laws for financial manipulation. The tax-writing committees are urged to begin immediately a detailed examination of the Internal Revenue Code with due consideration to these objectives and standards.

Pending these tax reforms, the Congress should extend for another year the present tax rate on corporate income and on some manufacturer's excises, distilled spirits, wines and beers, and cigarettes which will otherwise be automatically reduced as of July 1, 1959. However, a good case can be made for the repeal or reduction of a number of specific excise taxes which are wartime holdovers, regressive in nature, and which discriminate against specific types of economic activity.

The Congress should also proceed with developing a permanent plan for taxation of life insurance companies. We also endorse the President's proposal for clarifying the tax provisions with respect to the treatment processes to be considered as mining for purposes of computing percentage depletion allowances, although this entire subject needs further specific attention.

BUDGET PRIORITIES

Without much closer specification of the volume of total money demand and of developments in supply conditions through 1959 and 1960, than anyone can now provide, there is no way of knowing the exact impact of either a somewhat higher or lower volume of Federal expenditures on the general level of prices or on economic conditions in general.

While a balance or even a surplus in the budget is desirable in times of maximum employment, neither the soundness of our money nor our potential for economic growth and stability in 1959 and thereafter necessarily depends on balancing a $77 billion Federal budget in fiscal 1960.

Even if the Congress were to make no change whatever in the appropriations suggested in the budget, history shows that it is most unlikely that actual budget results would conform with those detailed in the budget. As a matter of fact, appropriations provided by the 85th Congress for the fiscal years 1958 and 1959 were $5.7 billion lower than requested in the respective budget messages. In fiscal year 1958 a surplus was predicted in the annual budget message but we ended the year with a $2.5 billion deficit. In fiscal year 1959, a balanced budget was predicted but it is now thought that the deficit will be almost $13 billion. And as the Secretary of the Treasury has himself testified, the largest part of the deficit in fiscal year 1959 is due to the falling off of receipts from taxes because of the recession, a situation which is not and could not be the result of a "wild spending" Congress as some would lead the public to believe.

Moreover, the situations with which the budget deals are not static but dynamic; changes in the budget to reflect new circumstances or better appreciation of existing ones must not be frustrated by insistence on a fixed budget total. Any business run on the basis that a budget, once set, must not be changed regardless of circumstances would hardly be considered a good investment. Flexible management is just as important in the Federal Government's budget activities as it is in those of a private enterprise.

We should also realize that a considerable amount of our national expenditures in any given year is for direct and indirect capital investments. In the Federal Government, unlike the sound accounting practices of private business, these are charged to operating expenses. Apparent deficits are, therefore, frequently not really deficits at all. The adoption of sound budget principles which would separate capital outlays from operating charges is badly needed.

The projected balance in the budget for fiscal 1960 depends on a sufficiently large expansion of economic activity this year to add $9.1 billion to net budget receipts. The President's Economic Report is scarcely a month old but these optimistic estimates of increased revenue may not now be borne out and, in the meantime, the Budget Bureau foresees more than 35,000 new civilian employees. The first enthusiastic claims that the recession is all over are now being somewhat soft-pedaled. The return to the days of maximum employment and production may be spread out over a considerably longer period of time.

It must also be recalled that trust fund receipts and expenditures are not included in the administrative budget. For fiscal 1960, the

President's budget estimates that total trust fund receipts will exceed trust fund expenditures by $218 million. This estimate is based, however, on highly optimistic estimates of what the level of general business and corresponding social security tax receipts will be at the increased rates that went into effect in January of this year. Most important are the social security and retirement trust funds which are financed mainly from payroll taxes paid by employers and employees. Payments from these funds are primarily for benefits to the retired, the disabled, or the survivors of insured persons. The number of these beneficiaries is estimated in the President's budget at 15,570,000 for fiscal 1960.

If the highway trust fund, for example, were included in the administrative budget, a deficit of $171 million would show up, instead of the $70 million surplus predicted by the President. The deficit in the highway trust fund is estimated for fiscal 1961 at $1,059 million and for fiscal 1962 at $2,166 million, under present tax law. To achieve surpluses in the fund projected for those years depends entirely on the enactment and yield of a 1½ cents per gallon increase in highway fuel taxes. If there is no new gasoline tax, the red ink in the highway fund will account for a continuing deficit. From the statements made by the President regarding the heavy expenditures from the highway trust fund one can only judge that the appropriate committees of Congress should immediately examine the magnitude of the building plans of the Bureau of Public Roads. There is reason to believe that an expensive pattern of highway construction suitable perhaps for populous States and municipalities is being expanded to embrace even the sparsely populated areas of the country where other kinds of construction would be more suitable.

Balance in the budget also depends on proposed liquidation of $670 million in Federal assets and on a $1.1 billion increase in revenues from increases in postal rates and in gasoline excises. The fiscal soundness of the Nation will not be threatened by rejection or modification of these proposals.

In addition a series of Presidential spending recommendations for the ordinary operations of Government are made which shift the deficit to 1959 in order to force a so-called balanced budget in fiscal 1960. Thus there is listed some $8,715 million of new obligational authority which was not ready for transmission to Congress when the budget was filed but which will be transmitted later and assigned to the 1959 estimate. Many of these new proposals could have been included in the 1960 budget but are being transferred to the 1959 budget. They include $4,550 million for the International Bank for Reconstruction and Development and the International Monetary Fund. They also include $225 million for the Development Loan Fund.

The important issue, therefore, is the character of the Federal Government's activities for which the budget provides, not merely its total. The appropriate questions are whether we will devote enough of our available resources through the agency of the Federal Government to provide for the Nation's security, its responsibilities to the free world, and its economic growth and development and whether we will cut out waste and release resources from Government programs whose contributions in these respects are exceeded by their costs. Moreover, budgeting on this basis could very well result in a greater expansion of employment and production than is estimated in the budget and thereby provide additional tax revenues.

If the answers to these questions result in total expenditures in excess of the $77 billion proposed, we need not be deterred by reservations about the Nation's ability to finance the programs deemed desirable in a manner consistent with stability in the price level and with a high and stable rate of resource use. The United States has the real resources and financial capacity necessary for higher levels of Federal expenditures if needed for our security. Providing additional revenues, if these are deemed necessary, would be facilitated by the tax reform previously suggested.

On the other hand, we need not necessarily conclude that sound budget policy, along the lines suggested above, will result in a materially different level of expenditures from that proposed for fiscal 1960. There are abundant opportunities for reducing the costs of present programs, both by revising the substance of these programs to conform more closely with current and prospective requirements and by increasing efficiency in their execution. For example, hundreds of millions of dollars could be devoted to a larger, more effective defense buildup and to more actual combat troops through savings which could be achieved by revising procurement practices and by more rapidly drawing down our currently excessive inventories of military supplies. We could, in other words, cut back on military fat and waste and use the savings to increase our actual fighting strength and for missiles.

We could cut back on business and farm subsidies and use the savings for slum clearance, depressed areas, schools, hospitals, medical research, and a more equitable farm program.

We could close our tax loopholes and use the increased revenues either to pay off some of the debt or for tax reduction.

Similar opportunities are available with respect to virtually every major Federal program. Before we conclude that the Nation cannot afford to expand existing programs or adopt new programs that will contribute materially to the safety and prosperity of ourselves and the free world, we should be sure that we are not unduly wasting resources in present programs.

The budget can be revised and the list of priorities changed by the Congress. Sound budget policy may well call for expanding some Federal activities and contracting others, and this should not be labeled fiscal irresponsibility.

But when employment is virtually full and available resources largely employed, the Government should not, except in times of war or emergency, operate at a deficit. The budget should then instead show something of a surplus. Above all, we should beware of trying to finance a deficit at such times by the creation of more bank credit, which under the circumstances mentioned will drive up price levels and create inflation.

THE DEFENSE BUDGET

The Congress should subject the adequacy of the proposed defense budget to the closest possible scrutiny. The proposed total outlay of $40.9 billion is only $145 million higher than that for fiscal 1959. In view of the steady increase in costs of weapons systems, it is difficult to accept the contention that this amount and, more important, composition of the defense budget will maintain effective defense preparation even at the level of the current year, let alone the improvement required in view of Soviet advances in military technology and the increases in Soviet military spending. Comparisons in terms of constant dollars sharpen perspective on this issue. In constant 1958 prices, outlays on national defense in calendar 1958 were almost $1 billion less than in 1957, about $600 million higher than in 1956, roughly the same as in 1955, and $4.2 billion lower than in 1954.

The argument has been made that major shifts in the composition of the defense program permit us to spend less in real terms for more effective defense. The nature of these shifts suggests that, at least in the immediate future, precisely the reverse must be true. As more of the defense budget shifts to increasingly complex weapon systems, we should expect costs to increase. At the same time, our more advanced and more costly weapon systems have not yet reached the point of high-level effectiveness. The shift in expenditures toward missiles from aircraft can hardly be construed at this point to mean that we have or will have in fiscal 1960 a fully effective and operative missile arsenal.

While vigorously pursuing advances in military technology, we cannot afford to weaken effective defense components in being. The scheduled reductions, during the current and coming fiscal years, in active combat forces, especially in the Army and Marine Corps, even in the face of additional funds made available by the Congress last year to maintain the numerical strength of these forces, are an example of unwise economies which should be critically examined by the appropriate committees of the Congress.

RESEARCH AND DEVELOPMENT

The significant part played by research and development activities in impelling economic growth as well as in improving our defense capabilities is now generally recognized. The expansion of budgeted Federal activities in this connection is an encouraging development.

A troublesome problem in this and other areas of activity is the duplication and ineffective integration of effort both within and outside the Federal Government. In this connection, the committee's hearings on the Economic Report confirmed a finding by the Fiscal Policy Subcommittee in its study of Federal expenditure policies that—

> a major obstacle to more effective research programs is the difficulty in establishing criteria for the allocation of highly limited and specialized research skills and equipment. It is agreed generally that a significant expansion of research efforts is required. Success in this respect, however, depends at the outset on improving the organization of research resources and their allocation into more productive lines of inquiry * * *. Federal research programs should seek closer integration and better organization of research activities. Such improvements are fundamental in assuring the greatest possible productivity from any increase in Federal research outlays.

Significant economies with improved effectiveness may well be realized by the consolidation of research activities, particularly in the Department of Defense. Better coordination of Federal Government and private research efforts, moreover, would cut down expensive and disruptive rivalry for research talents and resources.

Yet the importance of lonely and creative discoverers, such as Einstein, Bohr, and Admiral Rickover, should be recognized and should not be crushed out or stifled by group, committee, or "gang" research.

AID TO EDUCATION URGENTLY NEEDED

In the interests of longrun economic growth, the Nation must both increase the volume and improve the quality of resources devoted to education at primary, secondary, and advanced levels. The Congress is urged to provide substantial Federal assistance to the States and localities for expanding school construction programs and for improving standards of instruction.

Economic growth is largely a process of accumulating capital. As the recent dramatic advances in military and space technology demonstrate, intellectual capital, as well as physical production facilities, is an essential ingredient of economic progress. The rapidly increasing complexity of industry imposes equal demands on the technical training of the labor force. Just as important is greater ability to deal with the increasingly complex social and political problems which we face in the present period of dynamic change throughout the world. If we are to make headway in finding constructive solutions to these problems, we will have to raise our educational standards and achievements.

The basic problem is to direct resources into this effort, and is not merely a problem of the level of government on which responsibility should be imposed to effect these advances. There is no lack of awareness by State and local governments of the magnitude or urgency of the undertaking. There are, however, important institutional barriers which prevent many of these governments from financing educational programs on the scale which they recognize is necessary to meet their own standards. It is difficult to see what considerations should preclude extensive Federal assistance to the States and localities to overcome our educational deficits, including the shortage of 140,000 classrooms. Advances in educational programs cannot wait for the resolution of State and local government financial problems, or the years of delay involved in changing State constitutions which some proposals made in the field of aid to education would require.

FOREIGN AID

The cold war determines to a substantial extent the setting for our domestic and foreign economic policies. This conflict is not static; it presents continually changing problems and requirements. For some time past it has increasingly taken the form of a massive economic competition between the world's free nations and those under Communist domination. The Soviet Union has been expanding its assistance to underdeveloped countries as a means of economic penetration with the dual objectives of making these countries economically dependent on the Soviet Union and of forcing the organization of their economic life into the Soviet pattern. Considering the potential resources of these underdeveloped nations, it is clear that Soviet success would inestimably weaken the position of the free world. The threat inherent in such a development is so great as to make meaningless the assertion that we cannot afford extensive investment, public and private, in the world's underdeveloped regions.

As the economically most advanced country in the world, we should be helping other less advanced countries to help themselves even if the cold war and the Soviet Union did not exist. To do this and to meet the Soviet threat, the United States and other free nations must increase the effectiveness of programs to aid the economic progress of underdeveloped countries. Some of the criticism of our foreign economic policy is merited; no constructive purpose is served by closing our eyes to any specific situation in which there is a waste of resources or failure to accomplish specific goals. Such criticism, however, should not lead to curtailment of our own foreign economic assistance programs or of our participation in international programs to promote economic development abroad.

Certainly we should do everything possible to eliminate waste and inefficiency from these programs. Much more, however, is needed if their effectiveness is to be significantly increased. Basically, we need clear and specific objectives in every aspect of our foreign economic policy and a critical examination of alternative means to achieve these ends.

For example, attention should be given to expanding the scope and improving the effectiveness of present programs under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). Many underdeveloped nations are primarily agricultural economies in which economic progress may depend at the outset on accumulating capital out of agricultural production. The use of our own agricultural surpluses as a means for increasing agricultural productivity in these circumstances may be the soundest approach toward creating the conditions required for industrial enterprises and a more diversified economic base.

In addition, we should give careful consideration to means for mitigating barriers to investment abroad by U.S. citizens and companies. Reducing these obstacles would make available to underdeveloped countries not only material resources but also the extremely valuable entrepreneurial and managerial skills of American business.

Attention should also be given to increasing the scope and effectiveness of the Development Loan Fund in an overall program for contributing to the economic progress of underdeveloped areas. The Fund's lending authority should be expanded and placed on a long-range basis in order to assure continuity and opportunity for effective programing.

In addition, the proposal by Senator Monroney for an International Development Association deserves serious, constructive attention, as does the proposal of Congressman Boggs on private investment abroad.

DEPRESSED ECONOMIC AREAS AT HOME

Our programs contributing to the economic progress of underdeveloped regions abroad highlight the inadequacy of public efforts

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to improve economic conditions in depressed and underdeveloped areas at home. We can no more afford the continuing waste of our own idle or underutilized resources in these areas than we can afford to turn our back on the problem of economic development abroad.

We therefore urge the Congress to enact a substantial program for aid to our depressed areas. This program should seek to improve the productivity and therefore economic attractiveness of the resources located in industrial and agricultural areas of chronically and persistently low employment and output. In many of these areas, the principal requirement is for an adequate water supply or improved power or other facilities, upon which attraction of new industry largely depends and for which local financial resources are now inadequate and are likely to remain so until new industries can be attracted. The program should also provide technical assistance and advice to local areas concerning their economic opportunities and limitations so that cooperative public and private efforts can be directed into lines of activity holding greatest promise. Useful and economically sound new industrial projects in both industrial and rural areas should be encouraged by loans and information about the advantages of these areas.

The objective of such a program is to increase economically sound employment opportunities on a permanent basis for the substantial numbers of fully or partially unemployed in these depressed areas, and not to subsidize otherwise uneconomic activities. A program designed to achieve this objective will contribute to the Nation's economic growth. It will represent an investment in increasing productivity. Moreover, it will serve to reduce public outlays for unemployment compensation, relief, and various other forms of public assistance, for which no current production is received in return. The net cost of the program, therefore, will be significantly outweighed by the increase in productivity and in production toward which it is aimed.

DEVELOPING RESOURCES

Federal programs to expand the Nation's natural resource base should be carefully reviewed in the light of the future demands of an expanding economy. As the Subcommittee on Fiscal Policy observed in its report, "Federal Expenditure Policies for Economic Growth and Stability":

> Such programs long ago were established as appropriate activities of the Federal Government where their objective is to eliminate barriers or to provide the stimulus for fuller, more effective resource use and where the means required for realizing these objectives exceed the financial capacity of immediate beneficiaries. Whether any specific project is to be undertaken * * * should be determined by appraisal of measurable economic benefits in comparison with the project's cost.

Following this principle precludes, except under extraordinary circumstances, a flat proscription, such as that in the budget for fiscal 1960, of any new starts in this area. What is called for, instead, is the closest possible examination of present and prospective programs to determine those promising the greatest net yields. If the results of such a survey call for increasing Federal outlays on developing our natural resources, it would be fiscally irresponsible to refuse their undertaking on the basis of narrow budget-balancing considerations.

At the present time, moreover, there are numerous opportunities for expansion of economically sound natural resource development and public works projects in areas of high and persistent unemployment. These projects can serve the dual purpose of improving the conditions for longrun economic growth and of spurring recovery over the next 18 months.

SLUM CLEARANCE AND URBAN RENEWAL

We urge support for current legislative efforts to provide the framework and machinery for eliminating urban slums and for renewing and revitalizing urban development. The continuing industrialization of the economy places greater than proportional burdens on our cities in providing increasing public facilities and services. Local fiscal capacity, under existing statutory and constitutional limitations, tends to lag behind the growth in demands for these public services and facilities. Failure to meet these demands in the past has resulted in expanding slums and urban blight, which disproportionately increase the costs of municipal government. The paradox of this spreading decay and disintegration accompanying expansion of the overall wealth and strength of the national economy calls for a greater level of effort on the part of the Federal Government.

Federal public housing and urban renewal programs have been inadequate in the past to arrest the process of urban blight and to give local governments an opportunity to catch up with the demands they must ultimately face.

Our cities and urban areas now have great financial difficulties. Many of them lack effective home rule. Their bonded indebtedness is often limited by provisions of State constitutions which cannot easily be changed. More often than not their representation in the State legislatures is unfairly proportioned. Even when they are willing to help them, the States' own means are severely limited. In the meantime, the cities and urban population continue to grow both in absolute numbers and relatively to rural groups in our society. The consequences are that the cities are rotting away at their centers without effective means to help themselves. It is for these reasons that greater Federal Government efforts should be made at this time as a start toward helping them solve their difficulties.

THE FARM PROBLEM

Either through administrative action or under authority of legislation, the Secretary of Agriculture has put his sliding scale low price support program into effect. This program, combined with technological advances, has resulted in lower farm prices, lower farm income, lower net income per farm, a quadrupling of the agricultural surpluses, and a quadrupling of the expenses of the Department of Agriculture since 1952. Meanwhile, although prices received by farmers have fallen almost 15 percent since 1952, food prices to the consumer have risen 5 percent. By any measure of income—parity, surpluses, or expense—the program has hardly been a success.

The theory on which the program is based is that lower prices for farm products will bring such an increase in demand for these products as to provide the farmers with a higher total income. We do not wish to dispute the sincerity with which these views are held or the motives which prompt them. However, there are at least two basic defects in accepting as the best for farm products competitive market price without any protections.

In the first place, the demand for farm products is what the economists call inelastic. What this means is that an increase of, say, 5 percent in the quantity of farm products will bring a fall in the price of most farm products not of an equal proportion, or 5 percent, but of two or three times the relative increase in the quantity. Therefore, an increase of 5 percent in the quantity of most farm products will bring a 10 or 15 percent decrease in the price of farm products, and, hence, a decrease of from 5 to 10 percent in the total farm income.

The farmers, therefore, are in the situation that an increase in production because of better methods, more fertilizer, more machinery, etc., brings them a lower gross income. Thus, under the free market, farmers as a whole receive a smaller total income for producing more. When the condition of all farmers is taken into account, each farmer will receive less money for producing 110 bushels of corn than for producing 100 bushels. In other worlds, the increased production times the new lower price brings a smaller total.

In the second place, in the case of the owner-operated farm, when the farmer's income is thus decreased, instead of producing less, he will work harder, use more fertilizer, cultivate more intensely, and will produce more than before. He does this because he has to meet his fixed costs—taxes, depreciation, interest on his mortgage, etc., and what he regards as the necessary costs of supporting his family.

Therefore, under a free market in agriculture, two forces are at work, and these forces make things worse rather than better. When the price is lowered—whether due to increased output or lower price supports—the farmers work harder and, therefore, produce more. As their total output is increased, the price on the market falls still more. They then work still harder, produce more, and the price falls even further. In an attempt to meet their fixed costs, again they work harder, produce more, and both the price and their total income fall even more.

Thus the program followed by the Secretary of Agriculture is based on the false assumption that lower prices will bring a large enough increase in demand to produce a higher total income when just the opposite is true.

In such circumstances, the only way in which equilibrium can be reached is by lower farm prices and lower farm income which will bring—and, in fact, has brought—a great exodus from the farms into the towns and cities. However, this has happened at the expense of the family-sized farm and farmer. It can be continued only by depressing still further the absolute or relative standard of living on the farms.

Because of these distinguishing characteristics of farm economics, we should, therefore, rethink our farm program and rethink it in such a way as to protect the family-sized farm.

IMPROVE ANTITRUST LAWS

The President's Economic Report quite properly emphasizes the importance of effective antitrust policy for providing the conditions in which high rates of growth and of employment in a dynamic setting will be compatible with stability in the general level of prices. To achieve this objective, antitrust policy should aim at removing or reducing the barriers to mobility of labor and capital resources. This calls for increasing attention to the effect of the structure and organization of major industries on pricing policies and on responsiveness of resources to changing price relations rather than focusing exclusively on specific and frequently petty violations of existing statutes. Greater emphasis, therefore, should be placed on dissipating monopoly power, as well as inhibiting specific monopolistic practices.

The committee's hearings brought out numerous instances of Federal Government policies and practices which contribute to price rigidity, at least in a downward direction. Procurement procedures do not rely extensively enough on competitive bidding. Many regulatory policies serve primarily to maintain floors under prices of goods and services. A careful and extensive review should be made to identify and evaluate any such practice or policy which tends to prevent prices from responding quickly to changing market conditions.

We commend the President's recommendations to require notification to the antitrust agencies of proposed mergers by businesses engaged in interstate commerce, and to authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely. Bank mergers should also be made subject to regulation by the antitrust agencies. In lieu of the civil investigative demands suggested by the President, the Attorney General should be empowered to issue subpenas in antitrust cases when civil procedures are contemplated.

NOTE.—Because of the unexpected resignation of Senator Green early this year as chairman of the Committee on Foreign Relations, Senator Fulbright relinquished the chairmanship of the Committee on Banking and Currency, and was appointed chairman of the Committee on Foreign Relations on February 6, 1959. As a result of the unusual burden of work occasioned by this change in status, Senator Fulbright was unable to participate in the hearings or committee meetings on this report. For that reason, the findings and conclusions herein set forth are neither approved nor disapproved by him.

COMMITTEE ACTIVITIES AND PLANS

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–February of 1958 the committee held hearings and prepared its report on the 1958 Economic Report of the President. During 1958 the committee continued the five subcommittees in the study areas set forth in its report on the 1957 Economic Report of the President. The work of the committee and subcommittees during the past year is summarized below.

President's 1958 Economic Report

Hearings on the January 1958 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 policy 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, due March 1, was transmitted to the Congress on February 27. The report included supplemental and dissenting views of committee members, and materials on the economic outlook for 1958 prepared by the committee staff (H. Rept. 1409, 85th Cong., 2d sess.).

Committee study of the relationship of prices to economic stability and growth

The staff completed the organization of a compendium of research papers by 47 academic economists as approved by the committee early in the year. These papers were published as a committee print in March, under the title, "The Relationship of Prices to Economic Stability and Growth." Oral presentations and discussion of these papers were made in public hearings May 12 through 22, 1958. As a third part of the study, the committee invited economists from labor and industry to submit comments on the issues raised by the academic economists. These commentaries were published in a volume released November 10. The fourth and final stage of the study was a series of panel discussions, December 15–18, 1958, where the experts from labor and industry were joined in public hearings by some of the academic economists who participated in the earlier compendium and hearings. As the title indicates, the focus of the committee study, in contrast to more particularistic or specialized points of view, was upon the ways in which the behavior of prices, the operation of the market mechanism, and private pricing policies are related to the rate at which the productive capacity of our economy grows and to the stability of the rate at which the productive capacity is utilized.

Committee study of economic policy in Western Europe

In accordance with the plans approved and presented in the committee's report on the 1958 Economic Report of the President (H. Rept. 1409, 85th Cong., 2d sess., p. 8), members of the committee and staff held a series of conferences on stabilization and growth problems and policies in seven Western European countries during September and between November 9 and December 9, 1958. The conferences, which were informal and directed primarily to an exchange of views, were held with governors of the central banks, representatives of the Treasury and other Government departments, academic economists, and economists and policymakers from industry, labor, and the international organizations. In the conduct of these conferences and the collection and selection of published and unpublished materials on the subject, the committee had the valuable assistance and cooperation of the economic staffs of the respective embassies. A summary report, with supplemental materials, is in preparation.

Subcommittee on Economic Stabilization

The Subcommittee on Economic Stabilization was composed of Representative Wright Patman, chairman; Senator Joseph C. O'Mahoney, Senator Ralph E. Flanders, Representative Henry S. Reuss, and Representative Clarence E. Kilburn.

On September 10, 1958, the subcommittee sent a questionnaire to approximately 1,500 economists at 150 universities to obtain their views on some key issues of economic stabilization and on certain related banking questions. By the closing date of October 31, 615 completed questionnaires had been returned from all parts of the Nation. The questionnaires were tabulated and the results published as a committee print on December 31, 1958.

Subcommittee on Fiscal Policy

The Subcommittee on Fiscal Policy was composed of Senator Paul H. Douglas, chairman; Senator Joseph C. O'Mahoney, Senator John D. Hoblitzell, Jr., Representative Hale Boggs, and Representative Thomas B. Curtis.

Hearings were held by the subcommittee April 28–30 and May 1, 1958, on "Fiscal Policy Implications of the Current Economic Outlook." The hearings were conducted as part of the Joint Economic Committee's continuing responsibility to follow economic developments and to provide Members of the Congress with information on adjustments in public policies which may be desirable for economic stability and growth. The subcommittee heard 28 experts from industry, labor, agriculture, and the universities in a series of 4 panel discussions.

Subcommittee on Economic Statistics

The subcommittee, in accordance with earlier instructions from the full committee, has attempted, through correspondence and personal consultation with members of the Appropriations Committees in the House and the Senate, to obtain favorable action in the statistical areas which its studies have shown to be lacking in coverage or adequate data. On October 6 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. 620 ff., Joint Economic Committee Hearings on the 1959 Economic Report of the President.)

Subcommittee on Foreign Economic Policy

The Subcommittee on Foreign Economic Policy was composed of Representative Hale Boggs, chairman; Representative Richard Bolling, Senator J. W. Fulbright, Senator Ralph E. Flanders, and Senator Arthur V. Watkins. Because of the full committee's conferences and study of Western European stabilization policies, the subcommittee did not conduct any inquiries of its own.

Subcommittee on Agricultural Policy

The Subcommittee on Agricultural Policy was composed of Senator John Sparkman, chairman; Senator Paul H. Douglas, Senator Arthur V. Watkins, Representative Wright Patman, Representative Henry O. Talle, and Representative Thomas B. Curtis. The subcommittee submitted the final report of its comprehensive studies, begun in 1957, on February 10, 1958 ("Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability," report of the Subcommittee on Agricultural Policy to the Joint Economic Committee, Congress of the United States, committee print, February 10, 1958, 85th Cong., 2d sess.). No additional subcommittee studies were made during 1958.

Committee and subcommittee studies for the coming year

The chairman announced on February 16, 1959, that the committee would undertake a broad inquiry into overall economic policies beginning immediately after completion of its work on the President's Economic Report. The study will consider the problems of providing substantially full employment and an adequate rate of economic growth, as well as maintaining price stability and preventing inflation.

The study will be under the general direction of the committee as a whole, although specific task forces may be created to deal with subdivisions of the fields of inquiry, and a bipartisan steering committee has been set up.

The committee has approved a project (requested by Congressman Curtis) to develop through hearings or other appropriate means, further materials in the area of statistics and statistical comparisons examined in the Joint Economic Committee print on "Soviet Economic Growth, a Comparison With the United States," a study published in September 1957.

Additional proposals and plans for subcommittee or committee inquiries will be announced as they are developed.

Amendments to the Employment Act of 1946

Public Law 1, approved February 17, 1959, amended the Employment Act of 1946 to change the membership from seven Members of each House to eight Members of each House. In addition, the part of section 5(a) which now reads "The party representation on the joint committee shall as nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives" was changed to read "In each case the majority party shall be represented by five members and the minority party shall be represented by three members."

Changes in committee membership

Four new members of the Joint Economic Committee were appointed to fill vacancies at the beginning of the 86th Congress and two additional appointments were made following approval of Public Law 1. Senator Prescott Bush, Senator John Marshall Butler, and Senator Jacob K. Javits were appointed to fill the vacancies in the Senate Republican membership, and Representative William B. Widnall was appointed to complete the Republican membership in the House. Senator John F. Kennedy and Representative Frank M. Coffin were appointed to the two new vacancies in the majority membership created by the amendment to the Employment Act.

Staff participation in meetings with outside groups

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 1958: Economic workshops, Wisconsin and West

Virginia Universities; economic seminar at Yale University; annual sessions of the National Tax Association, Investment Bankers Association, Mortgage Bankers Association of America, American Pharmaceutical Manufacturers Association, the National Bureau of Economic Research, Federal Statistics Users' Conference, American Economic Association, American Statistical Association, the American Association for the Advancement of Science, the Econometric Society, Merrill Center for Economics, the National Association of State Tax Administrators, American Society for Public Administration, and the National Planning Association; conferences with groups of foreign economists brought here under the sponsorship of the State Department and the International Cooperation Administration; seminars of the Industrial College of the Armed Forces; meetings of local chapters of the American Statistical Association; meetings of the Brookings Institution, the Chamber of Commerce Committee on Business Statistics, Downtown Economists Luncheon Group at New York, Financial Analysts at Philadelphia, Large State R. and A. Conference of the Employment Service, the Association of Incorporated Statisticians, Ltd., London, England, and other meetings of business groups, civic organizations, and university classes.

Committee publications

During 1958 the Joint Economic Committee and its subcommittees issued 12 publications. Nearly 53,000 copies of current and previous 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 $15,000. This does not include the 7,800–8,000 paid subscriptions for the monthly publication *Economic Indicators*.

A checklist of committee publications will be found at the back of this report.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE WRIGHT PATMAN

In our concern over the great questions of public policy involving budget balance, national defense, and price levels, we ought not to neglect some of the lesser institutional problems, the solution of which, if not prerequisite to, will at least facilitate our handling of, those larger issues.

Three among the many of these seemingly secondary problems which need to be considered if we are to maintain a healthy, growing economy, and an efficiently run government are: (1) The practice of burdening the taxpayers with what amounts to an outright subsidy-gift to the private commercial banks for an alleged "service" which the Government can as a matter of fact do better for itself; (2) the disposition to accept the Federal debt largely left over from wars as something with which we must forever live, with no scheme or plan for payment, no matter what the effect of its management and overhanging weight may be on Government credit and budget costs; (3) the continued tolerance, against all considerations of equity and good business, of a tax shelter in the form of tax-exempt securities serving in a large measure to vitiate our progressive income tax system as well as to reduce the tax base.

1. At times the Federal Government must (or does) run at a budgetary deficit. The method employed in financing a deficit is a great deal more than a mere "housekeeping matter." When "money," which in modern times consist in large part of bank deposits, has literally to be created to finance a deficit it is important to consider just "how" and "by whom" the inherent right of the sovereign to create new money for public purposes is employed.

The year 1958, during which the Federal Government operated at a substantial deficit, provides an excellent illustration of the roundabout and costly practice into which we have fallen as a consequence of our fractional bank reserves. On January 1, 1958, the reserve requirements of member banks in central Reserve cities, Reserve cities, and country banks were 20, 18, and 12 percent, respectively. During the year these requirements were lowered by the Federal Reserve authorities, so that on January 1, 1959, they were 18, 16½, and 11 percent, respectively.

These reserve reductions, defended as measures to encourage the expansion of credit during the period of recession, made available to the commercial banks at the stroke of a pen several billion dollars of added costless resources. But that was not the extent of the "gift" to the private banking interests. Because of our fractional reserve system the banking system as a whole was thereby enabled to expand earning assets—loans and investments—to six or seven times the newly created reserves. While legally required reserves at the beginning of the year were $18.5 billion and even less at the end of the year, $18.1 billion, total loans and investments of the banks on which the banks draw interest increased nearly $15 billion—from $170.1 billion to $184.5 billion.

While these reductions in reserve requirements were put forward as measures to encourage expansion of business credit during a period of economic recession, the fact is that business loans of member banks actually decreased slightly during the year—from $40.5 billion to $40.1 billion. At the same time holdings by member banks of Federal Government securities increased $8 billion and their holdings of municipal, State, and corporate securities increased by $2½ billion. It will be urged by some that, since the Federal Government was running at a deficit, additional Government bonds had to be sold to someone, and that the commercial banks were, indeed, doing a public service in taking these bonds—even at ever higher interest rates. This contention would have a better ring if it were not that the private banks were exercising the Government's power to create money while charging the Federal Government for something the Government could and should do for itself.

On occasions when the Government must sell securities to cover a deficit every effort should be made to place these in the hands of real savers, individuals, corporate savers, investment trusts, pension funds, and insurance companies. Only after the resources of these investors have been fully drawn on does the creation of new money become necessary. When that situation arises, as it did in 1958, instead of resorting to the private commercial banks, allowing them to create new money outright on their books to loan to the Federal Government and on which they collect interest, the direct and forthright procedure is for the Government to exercise its constitutional power to do for itself what it can do through the Federal Reserve System—its own instrumentality.

Some persons, evidencing a lack of faith in the capacity of government to manage its own affairs, argue that the Government as a borrower must at all times be subject to the discipline of the market rate of interest. If this be so, there is no reason why interest on advances to the Treasury by the Federal Reserve should not be charged and paid for at a market rate. Any interest received by the Federal Reserve banks would ultimately accrue to the Federal Government through its claims on Federal Reserve net profits as an offset to the interest paid. Such accrual would thus tend to reduce the net budgetary burden of public debt interest upon the taxpayers.

In summary, when and if money must be newly created to take care of Federal Government needs there is no reason why the power of creating money which the Constitution clearly says belongs to the Government should be relinquished and turned over to the profit of private banks by permitting them to exact a charge for performing an essentially sovereign function.

(2) In spite of direct higher interest costs in the Federal budget we have, by expanding our national income, been in a sense growing up to our national debt since the war. Its relative burden has been lessening although its interest cost has been pushed up and up, and no progress made at reducing (except momentarily) its amount. We can never know how much the Government's credit is clouded by the overhang of this tremendous debt incurred because we failed to pay for the war by current taxation and later treated it as if it were an obligation that need never be repaid. The analogy of the Federal debt to

a household debt is somewhat unreal, but a practice of regularly going deeper in debt without any considered plan for even token repayments is not likely to be without costs to either a household or government.

We are all aware of the pressing demands for expanded defense and Federal services. We are aware also of how difficult it is to balance the Federal budget even in prosperous times. It may very well be, however, that the diversion of some tax money, or even increased taxes applied to the systematic curtailment of Federal debt, might be rewarding in easier debt management problems, lower interest costs, and in the meanwhile contributing to economic stability.

(3) The haven for tax avoidance which tax-exempt securities provide and the consequent loss of revenues to the Federal Government have been neglected far too long.

Instead of taking such institutional situations for granted we need to be giving constant thought to maintaining and expanding the tax base. It is unfortunate that in 5 years the present administration has apparently given no thought and has certainly demonstrated no leadership in trying to cure this longstanding inequitable and costly situation. Evils such as tax-exempt securities can only be cured by efforts to do something about them and not by ignoring or accepting them, no matter how seemingly ingrained they may be in our traditions.

The immunity of State and municipal securities from Federal taxation is not an expressed provision of the Constitution. Even as a rule of law it has not always been the case. While the principle that a tax levied by a State upon a Federal instrumentality might constitute a threat to the Federal Government itself goes back to Chief Justice Marshall's times, it was not until 1870 that the contrary doctrine calling for the immunity of State instrumentalities from Federal taxation was inaugurated. Exemption at the time was no serious problem. It did not become so until after the passage of the income tax amendment to the Constitution and the adoption as a part of our tax system of a steeply graduated progressive income tax.

Today, with the substantial number of State and municipal bonds now outstanding with tax-exempt features—$55 billion and increasing at the rate of $7 billion a year—and in spite of the high marginal tax rates on individuals and corporations, it is doubtful whether the States and municipalities save anything as a result of the tax-exempt feature. The competitive market for tax-exempt bonds tends to adjust so as to capitalize the value of the exemption to the investor whose tax rate is lowest but whose purchase of the securities is, nevertheless, necessary to clear the market of the total available supply of tax-exempt securities. Purchasers of the bonds whose marginal tax rates are higher than the rate of these other taxpayers get a windfall by saving more in taxes than they must to pay for the tax immunity.

Regardless of the question of whether the tax-exempt privilege may be eliminated on future issues by simple congressional amendment (as seems to many authorities to be the case) or whether a constitutional amendment is necessary to accomplish the end, it seems likely that the supposed saving in interest cost to local governments actually does not compensate for the tax loss now suffered by all taxing jurisdictions taken collectively. Not only equity but our revenue system and the budget position of the Federal Government would be improved by altering a tradition which today benefits the rich at a very doubtful if any saving to the State and local borrowers.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE HALE BOGGS

I agree with the general premise of the report on the necessity for much more emphasis on our economic growth and in pointing out the failure of our economy to expand at a rate commensurate with our domestic and free world requirements.

However, I would also point out that the other specific recommendations are subject to considerable differences of opinion and I cannot agree with the blanket conclusions expressed with reference to them.

I think that the report would be more effective if it listed these areas rather than attempted to recommend specifics. Tax reform, for instance, is of course very much needed and the Committee on Ways and Means is working diligently in this area. However, to single out a few items as is done places undue emphasis on these and not enough on others.

In addition, the flat endorsement of certain recommendations of the President bears some examination, such as that with respect to treatment processes in mining. I think, too, that under the heading of the farm problem and foreign aid, while much is said, a great deal more could be said about the necessity for complete revision of these programs.

In essence, I endorse the general proposition that we must strive with all of our energies, both public and private, for maximum employment and much greater expansion of our economy. But I am not prepared to endorse or reject the specifics set forth to obtain this objective.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE HENRY S. REUSS

I agree heartily with the majority's findings and recommendations. They differ markedly from those of the President and the Council of Economic Advisers. An important reason for the difference, I believe, is the failure of the President and the Council to fulfill the requirements imposed upon them by the Employment Act of 1946. To this extent, responsibilities which should have been assumed by the President and the Council have had to be undertaken by the Joint Economic Committee.

The Employment Act provides a specific framework, in the Economic Report, for reviewing Federal economic policies in the past and for outlining policies and programs for the future. It requires determining levels of "maximum employment, production, and purchasing power" for the economy, and establishing targets to be achieved. It then calls for a program of coordinated Government action directed to the target levels.

The Economic Report disregards these provisions of the act in two important particulars:

First, no employment or production targets are set. As noted by Dr. Gerhard Colm in his testimony before the committee:

> * * * The discussion of the economic outlook in the report remains vague without any clear or precise indication of the increase in employment and production needed to approximate "maximum employment, production, and purchasing power." In this respect the report fails to live up to one of the requirements of the Employment Act * * *. I am convinced that some discussion of reasonable goals of employment and production is useful and is actually required by the * * * act (hearings, pp. 441–442).

On employment, there is not even an estimate of what may be expected under the administration's recommended budget and other policies, much less a statement of what it believes the ideal goal to be. On production, the possible and hoped-for levels of output have had to be inferred from tax revenue estimates submitted by the Treasury. By this disregard of the procedures established by the act, the President and the Council of Economic Advisers have changed the Economic Report from a purposeful document, as intended by the act, to a mere review of the economy and a collection of legislative and other recommendations whose relevance to maximum employment and production can only be fortuitous.

Second, it was intended by the Employment Act that the President, both in his review and his recommendations, would cover all the economic policies of the Government. While the Economic Report contains a discussion of the effect of monetary and credit policies during the past year, it does not include any recommendations on what they ought to be in the coming year. The report merely states:

> Responsibility for monetary and credit policies rests with the Federal Reserve authorities who have independent status within Government * * * the pursuit of appropriate monetary (and) credit * * * policies would help attain rising production and employment at stable prices (p. 52).

This omission of monetary and credit policies, on the ground of the independence of the Federal Reserve System, is a serious misconstruction of the act. The purpose of the act was to provide for the centralization of responsibility in the President for the planning of an overall coordinated economic program. Monetary and credit policy recommendations are an integral part of such a program. Making such recommendations would not affect the independence of the Federal Reserve, since it need not be bound.

The President should include in the report only the desired general direction of monetary and credit policy. For obvious reasons he should not issue specific recommendations on changes in the rediscount rate or in reserve requirements; nor should he attempt to direct the daily operations of the Federal Open Market Committee. But Congress and the public, through the Economic Report, have a right to a Presidential program that includes an overall stabilization program, instead of leaving the major part of any such program to the Federal Reserve. For example, the President should indicate whether the credit policy to be followed is one of ease or restriction. He might wish to indicate that certain of the credit tools available to the Federal Reserve would better serve overall policy than others. If circumstances require, he should be prepared to recommend legislation to regulate consumer credit, mortgage lending, or the loan and investment activities of the nonbanking financial intermediaries.

Nowhere is the report more barren of recommendations than with respect to those inflationary price increases in the concentrated industries which have occurred even in the face of a decline in general demand. This type of inflation was well described by Dr. Gardner C. Means to the committee:

> The third type of inflation has been called an administrative inflation and involves a rise in prices in the more concentrated industries where there is a considerable area of discretion within which pricing policy can be made. Such pricing power clearly exists in such concentrated industries as steel and automobiles. It could also exist where markets are local and a few producers dominate the market. If this type of inflation occurs by itself, it involves a specialized price rise with the administration-dominated prices rising while market-dominated prices rise little or even fall. But this kind of inflation does not come from a general excess of demand and it cannot be halted by contracting demand except by creating unemployment. Indeed, there is some question whether even a very sizable amount of unemployment could prevent an administrative inflation. * * * Control of this type of inflation by a balanced budget and tight money can only succeed through high unemployment and may not succeed even then (hearings, p. 755).

The Economic Report implicitly recognizes that this "third type" of inflation may be the type which presents the most immediate danger. Yet recommendations on what to do about it are conspicuously absent.

Bills now before the Congress (S. 1237 and H.R. 4870) would redirect the President's attention to his duties under the Employment Act with regard to setting employment and production targets in quantitative terms, and with regard to including monetary and credit recommendations in his overall program. The bills, in addition, as a means for restraining inflationary movements in heavily concentrated industries, attempt to bring to bear an informed public opinion, through public hearings, upon price increases which threaten economic stability, and upon wage increases where the firm proposing such price increases declares such wage increases to necessitate the price increases.

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MINORITY VIEWS

Under the Employment Act of 1946, the Joint Economic Committee of the Congress is called upon to—

> * * * file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * *.

It has been possible on some occasions in the past for the Joint Economic Committee to submit its report to the Congress with agreement by all members of the committee.

Although there is much with which we can agree in the majority report, we have filed minority views because of a fundamental dissatisfaction with its partisan political tone and because of two principal and basic defects it contains:

1. It fails adequately to present the problem of maintaining prices at a reasonably stable level in our economy, the importance to sustained high levels of employment and growth of achieving this goal, and the kind of fiscal and monetary policies that will help assure this result.

2. It fails to address itself explicitly and directly to the recommendations of the President in his Economic Report for legislation that would help achieve the employment, production, and purchasing power goals of the Employment Act.

We will discuss these deficiencies at greater length later in these minority views, but first it seems appropriate to review the basic purposes of the Employment Act and discuss how they best can be achieved.

In the words of the Employment Act of 1946, the domestic economic objectives are "maximum employment, production, and purchasing power." These objectives have come to be expressed more explicitly as a high and steady rate of employment of the labor force, expansion of productive capacity, and stability in the general level of prices. There is little disagreement among members of the committee and between the majority and the minority on this score.

Although economic recovery by the end of 1958 had recovered most of the ground lost in the short recession, we are all quite aware that in mid-January, according to the Department of Commerce sample study and estimates, 4.7 million of our citizens reported that they were without a job but were looking for one. We yield to no one in the extent of our concern over unemployment and the hope for continued improvement in employment conditions.

Concerned as everyone is about the lost product of recessions and the personal hardships involved in unemployment, we need to be constantly reminded that the Employment Act of 1946, framed as an expression of public policy in the shadow of widely feared postwar unemployment, rejects the position that the Government itself should provide the jobs for the unemployed.

In our opinion the surest way now to provide additional job opportunities is precisely that called for under the Employment Act, namely, to create a climate in which industry, agriculture, and the service trades will be enabled to expand, thereby creating jobs and the purchasing power with which the products of maximum production may be moved. A dynamic economy fostered by private initiative and innovation coupled with a continuing flow of savings and confidence that Government itself will not arbitrarily interfere is the best way to foster these conditions. With the tide of economic activity now moving rapidly upward, Government policy at this juncture should nurture the recovery, alert to any setbacks, while seeking to prevent a new set of conditions from developing which may lay the groundwork for an outburst of inflation and a consequent future recurrence of unemployment.

A great deal of discussion in our hearings on the President's report and in the majority's report deal with the problem of economic growth. The impression which some try to create is that one party has a monopoly of interest in seeing a high rate of growth achieved and maintained. On the contrary, Americans in every walk of life and every political persuasion share this objective.

Our differences concern the best means for its attainment. Moreover, we reject the view held by some that any particular rate of growth can or should be set as a specific objective.[1] Economists have yet to resolve the formidable conceptual problems of economic growth and the even greater difficulties of measuring it meaningfully. In view of these problems, political debate over whether any given growth rate is attainable is absurd. In addition, the reference to the rate of increase of gross national product made by the majority can hardly be taken as indicative, by itself, of the Nation's economic progress. We should not overlook the fact that the recent expansion of productive capacity was probably the most rapid and intensive for any equally short period of time in our Nation's history.

Economic growth, as the majority have noted, is the process of capital accumulation. Capital accumulation requires two things: (1) incentives to invest, which in our free and private enterprise economy means primarily the opportunity to earn net returns commensurate with the risks involved; and (2) real savings needed to finance the investment. Public policies which limit or destroy incentives interfere with economic growth even if savings are high. By the same token, policies which prevent or discourage adequate savings will limit economic growth even if incentives to invest are strong. Both incentives and savings are needed. It is useless to urge a higher rate of growth for the economy if we are unwilling to take the steps necessary to provide the conditions in which both private investment incentives and savings will be adequate to this purpose.

One of the most important and constructive steps the Federal Government can take in this respect is to stop the continuing erosion of the value of our money.[2] Without a stable currency, decisions of individuals and businesses about both savings and investments are

[1] Senator Javits: "I believe that specifying a rate of growth as a goal is sound and helpful, even though it cannot be ordered in a free society. I have appended individual views which more fully reflect my position as referred to in the footnotes to the minority report."

[2] Senator Javits: "I do not believe that the Federal Government alone can control the erosion of the value of money, but that productivity and consumption factors are also vital elements."

distorted by considerations of trying to hedge against inflation. Moreover, the value of real savings out of any level of income will tend to shrink as savers become increasingly aware that the purchasing power of their savings is being eaten away by a rising price level. At the same time, investors, finding the costs of capital goods rising, experience increasing difficulty in acquiring an adequate volume of real savings to finance replacement, modernization, and expansion of their production facilities.

Stabilizing the price level and insuring the soundness of the dollar, therefore, is not an alternative objective to achieving a high rate of economic growth. On the contrary, it is a basic requisite for continuing growth without violent swings in the level of employment in a free economy.

The President's proposals for a balanced budget in fiscal 1960 are basic to achieving this aim. These proposals are not, as has been alleged by some, the product of outmoded fiscal canons. On the contrary, they represent constructive efforts to discharge fully the Federal Government's responsibilities under the Employment Act.[3]

The consensus of the experts testifying before the committee was that the economy would achieve high and record levels of employment, production, and purchasing power in the period covered by the President's budget. Under these circumstances, failure to achieve a balance in the budget can be expected to have prompt inflationary consequences. A renewal of inflationary price trends would greatly increase the difficulties to be faced by the entire economy in achieving and maintaining a high rate of growth with maximum employment, production, and purchasing power. Those who would unbalance the budget for fiscal 1960 by increasing Federal spending, therefore, would in fact defeat attainment of the Employment Act's objectives.

We turn now to the two major failures of the majority report—its cursory and confused treatment of the broad problems of fiscal and monetary policy, and the lack of adequate discussion of the President's specific recommendations for legislative action to achieve the goals of the Employment Act.

As to the first, the report of the majority presents a cloudy and unclear position.

On the one hand, the report registers its acknowledgement of the importance of price stability as a goal of national economic policy. It states that "* * * we should be acutely aware of the potential dangers of inflation * * *" and it correctly recognizes the damage which an inflationary trend does to our economy and to the welfare of millions of American citizens. Also, the report correctly states that under the conditions of full or virtually full employment of resources the Government should operate at a surplus. Yet the report fails to record support for the balanced budget program put forward by the President for the fiscal year 1960, a program which in all logic would fit the general fiscal policy conditions which the majority seems to advocate. Apparently, the majority has failed to grasp the fact that the budget put forward for the fiscal year 1960 is not a budget for today's operations, but for the operations of the Federal Government beginning July 1, 1959, and extending to mid-1960. The eco-

[3] Senator Javits: "While I am in agreement with the principle of maintaining a reasonable relationship of balance between income and outgo in the Federal Government, I believe that under conditions of existing economic and world political activity, the total aims of the President's report and the essential needs of the Nation can be met without fiscal jeopardy within the limits of a 5 percent budget tolerance."

nomic forecast of rising employment which is put forward in the President's Economic Report is not specifically rejected by the majority yet they fail to present a fiscal policy which would conform with such an economic forecast. Obviously, the burden of proof in this important matter rests upon the majority: they must either present the evidence for believing that economic resources will not be at full or nearly full utilization during the fiscal year 1960, or they must revise their apparent budgetary recommendations to accord more closely with those put forward by the President. This is the central issue of this year's legislative program.[4] It is regrettable that the majority has not addressed itself to that issue in a forthright manner but has chosen to speak on it in vague and apparently inconsistent language. The minority members of the committee want to make it quite clear that they regard the budgetary proposals of the President's Economic Report as appropriate for our present and prospective economic situation and urge the Congress to direct its legislative program along lines that will follow the general lines of the President's fiscal recommendations.

On the problem of inflation—surely the gravest potential obstacle to the achievement of high and rising rates of economic growth and improvement[5]—the viewpoint of the majority seems to be that this is a serious problem and one that we should do something about, but that we can well afford to wait until inflation is upon us before we do anything about it. Based on this completely unacceptable point of view, the majority appears to favor a less restrictive monetary policy, but no evidence is presented to support their point of view. The majority suggests that expansion of the money supply has been insufficient, whereas the fact is that the money supply increased in 1958 by nearly $6 billion (demand deposits and currency, seasonally adjusted), an increase of well over 4 percent. This portion of the majority report must be rejected as muddled, lacking in any obvious policy direction and affording no useful guidance to the Congress, let alone to the Board of Governors of the Federal Reserve System which has responsibility to the Congress for the formation and administration of monetary policy.

We will now discuss the majority report's treatment of matters on which the Economic Report makes specific proposals for action to achieve the goals of the Employment Act.

I. There is general agreement that monetary policy and debt management have an important role to play in assuring the sound currency upon which steady economic growth over the long run depends. A monetary policy which ignored the strength of demand in the free money markets and which sought to provide easy credit under all circumstances would clearly lead to inflation and the speculative excesses out of which recessions develop. Responsible monetary and debt policy, therefore, is flexible and adjusts to the changing needs of the economy.

This flexibility was well demonstrated during 1958. The easing of conditions in the money markets during the early part of the year,

[4] See footnote 3, page 33.

[5] Senator Javits: "I do not consider the danger to economic growth to be primarily inflation but include inadequacy of productivity, international development, research and development, and government-business coordination; these, too, are vital elements in helping us to attain an optimum rate of economic growth."

to which the Federal Reserve System contributed, was a material factor in arresting the decline and in providing the conditions under which recovery could get underway. As economic activity increased, the subsequent adjustments by the Federal Reserve provided the basis for sound growth in the availability of money and credit, without affording the basis for resurgence of speculative demands in the money market. These policies are being employed today to prevent renewal of strong inflationary pressures. There can be little disagreement that this is to be preferred to waiting until inflationary strains are well underway before taking action.

Monetary policy during 1958, moreover, should once and for all dispel any impression that "tight money" has in the past or will in the future be sought as an end in itself. We can be confident that monetary and debt management policies will be continuously adjusted to changing conditions and that the maximum volume of credit on the easiest terms consistent with stability in the price level and in employment conditions will be available.

The President has strongly urged the Congress to grant wider administrative authority in setting interest rates under Federal direct lending, loan insurance, and loan guarantee programs. It is not clear from the majority report that they reject this constructive proposal; indeed, it would appear that they approve it, in principle. Yet the majority report fails to make a forthright recommendation to the Congress for action along the lines of the President's recommendation. We of the minority strongly recommend that this recommendation of the Economic Report be acted upon by the Congress in order to help achieve a higher level of residential building and, in line with the explicit objectives of the Employment Act, to accomplish this to the maximum extent possible through the agencies of our private financial institutions. Here is a definite proposal that would both spur building and reduce Federal expenditures. It should have the forthright support of the committee and of the Congress.

II. The majority report favors legislation looking to the reform of our tax system, as does the President's Economic Report, but the majority report, unlike the President's Economic Report, fails to discuss this question in sufficiently specific terms to be useful as guidance to the Congress.

The Federal Government can contribute significantly to providing the climate for economic progress by careful revision of the Federal tax structure. Tax reform is needed to eliminate the present biases against capital accumulation and to provide a tax framework within which sound business considerations, rather than tax differentials, determine the character of business activity. Studies by the Tax Policy and Fiscal Policy Subcommittees of the Joint Economic Committee have indicated, for example, that (1) a substantial volume of financial assets have been immobilized by various features of the Federal tax system; (2) business capital structures and the methods of financing improvements and expansion are adversely affected by the present tax bias in favor of debt financing; and (3) present depreciation allowances for tax purposes are inadequate to provide the resources needed to expand and to replace obsolete plant and equipment with facilities incorporating technological advances.[6]

[6] Senator Javits: "I also believe that emphasis must be placed upon tax inducements for foreign private investment and that consideration should be given to measures which would increase tax revenues, as, for example, in the reconsideration of depletion allowances."

Numerous studies, including those by subcommittees of this committee, have also pointed out various ways in which the Federal tax system has limited the development of adequate revenue sources for the States and localities. Tax revision to eliminate these features of the Federal Revenue System would permit State and local governments more adequately to discharge their responsibilities in providing the essential public services upon which attracting new industry and holding existing industry largely depends.

III. The majority report expresses concern over the so-called cold war but fails to make specific recommendations for measures that would help the United States combat the efforts of the Soviet bloc. This is regrettable since it would appear that the majority, had they been of a mind to do so, could have found in the President's economic program exactly the measures that they desire to support. The minority registers its support for (i) extension of the authorization for sales of surplus agricultural commodities for foreign currency under title I of Public Law 480 and for the donation of such commodities for famine relief and other assistance under title II of that law; (ii) additional obligational authority for the Development Loan Fund; (iii) careful study of the merits of an International Development Association, to be affiliated with the International Bank for Reconstruction and Development; and (iv) prompt action by the Congress on the request of the President for augmenting, along with other nations, the resources of the International Monetary Fund and the International Bank for Reconstruction and Development. These are positive steps that can be taken by the Congress to achieve the foreign economic policy objectives which, as we read the majority report, the majority members of the committee appear to support.[7]

IV. That section of the majority report directed to Federal programs for natural resource development hardly provides any useful guidance to the Congress. It goes without saying that "* * * Federal programs to expand the Nation's natural resource base should be carefully reviewed in the light of the future demands of an expanding economy * * *" Such review is a continuing activity of Government; any criticism of our present programs of resource development can be useful only if stated in very specific terms. Apparently, the majority view is simply that the Federal Government is not spending enough money in this activity, but the majority fail to note that the budget for the fiscal year 1960 contemplates spending on natural resources at a rate higher than in the fiscal year 1959, substantially above 1958, and very much higher than 5 years ago.

V. On the subject of slum clearance and urban renewal, the majority report is again vague and inconclusive, offering no specific guides to the Congress. In the judgment of the minority and of virtually all experienced and competent students of housing problems, the Federal public housing program has failed to provide an acceptable solution to the problem of inadequate housing in our great urban centers. It would have been wise and helpful had the majority registered its support of the President's program, as set forth in legislation presented to the Congress, for additional funds for the urban renewal program and for revisions in certain of the procedures of that program that will

[7] Senator Javits: "I consider one of the great opportunities for realizing the goals of the Employment Act to be in the development of new markets through foreign public and private investment, in the development of the underdeveloped areas, and in greatly increased technical assistance to them."

make it more effective as a means for helping to solve redevelopment problems in urban centers.[8]

VI. The gist of the majority report's comments on the farm problem is that we should "rethink our farm program." Assuredly, there can be no dispute about this. There is only a need for action on the part of the Congress to write laws which will make it possible for the farm economy to adjust production, in an orderly fashion, to a proper balance with commercial demand, and thus to eliminate the inordinately large and growing burden on the Federal budget for subsidies to farm production. There is, fortunately, no inconsistency between a proper agricultural program and the protection of the values which we all recognize in the continuance of the family farm.

VII. The minority is happy to note the fact that the majority agrees with the President's recommendations with respect to improvement of our antitrust laws and the strengthening of their enforcement. In this same section of its report, the majority takes notice of governmental activities that affect prices and costs but fails to acknowledge the appointment by the President of a special Committee on Government Activities Affecting Prices and Costs which will study exactly the range of problems in which the majority members of the committee express an interest.

In summary, the report of the majority fails to deal directly with the recommendations of the President for economic legislation and, accordingly, fails to give the Congress the guidance which is called for under the Employment Act of 1946. The minority members of the committee have examined the President's report closely, and have participated in the hearings which have been held by the Joint Economic Committee on that report. In our judgment, enactment by the Congress of legislation along the lines proposed in the President's report would help accomplish this year and in the years ahead the employment and production goals of the Employment Act. The minority members of the committee wish also specifically to register their support for the President's proposal that the Employment Act be amended to make reasonable stability of prices an explicit goal of that statute.

We wish to commend the Council of Economic Advisers on the technical quality of the analysis, and presentation of the report and appendixes. There continue to be items of seemingly marginal importance in the report yet there is marked progress in directing the recommendations to the broad questions of policy with which the Employment Act is concerned.

Thomas B. Curtis.
Clarence E. Kilburn.
William B. Widnall.
Prescott Bush.
John Marshall Butler.
Jacob K. Javits.

[8] Senator Javits: "A balanced approach to the housing problems of our urban communities requires not only an adequate urban renewal program, but also assistance to housing for middle-income families and the elderly, whose needs private enterprise is not able to meet alone, and the provision of some low-rent public housing to meet the social needs of our people."

ADDITIONAL VIEWS OF SENATOR JACOB K. JAVITS

While expressing reservations to the minority report in some respects, I have concurred with it, subject to these reservations, because I believe that its emphasis on thoughtful consideration of budget and fiscal policy is essential to the country. I would have much preferred to see a report issued on which we could all agree—indeed, attempts were made to bring this about—but this proved to be impossible.

Though I suspect that efforts will be made to draw an issue between those who will be labeled the "spenders" and the "savers," and to make the views of those who believe in "economic growth" appear irreconcilable with those fearing inflation more, I cannot help but feel that the very substantial areas of agreement which exist in the committee should be highlighted at least as much as the differences.

There is general agreement that these are not normal times for our country or for the world and we cannot deal with the budget and with our general economic position as if they were. Though we are not engaged in a fighting war, the struggle between the economic and social systems of freedom and communism—"the cold war"—demands unusual expenditures and policies. Also, the drive of people in large parts of the world toward more tolerable living conditions and toward self-government make these explosive, not normal, times.

The objective of a balanced budget over a cyclical period is a sound one and should be followed, but we must take into account the existence of a cold war extending more and more into the economic field and the existence of more than normal unemployment; hence the reason for accepting some budget imbalance, which should, of course, be kept within minimal limits.

The Federal Government has the responsibility under the Employment Act of 1946 to use all the means at its disposal to promote maximum employment, production, and purchasing power. This requires development of the Nation's productive capacity and markets, a high and steady rate of use of the labor and material resources, a high degree of stability in the general level of prices, high efficiency in production and distribution, and fair compensation to workers in accordance with our long-established principles of mass production and mass consumption. All of these objectives must be given due regard.

There is no need for me to restate the majority report's discussion of the testimony of economic experts from the executive branch and from groups outside the Government who generally foresee relatively stable prices for 1959. The great need to protect our pensioners, retired persons with fixed incomes, life insurance beneficiaries, and Government and white-collar workers, who are ordinarily the worst victims of inflation, is also generally recognized. Neither should there be any disagreement with the statement that there is room for substantial tax reform, in view of the great influence both positive and negative of the tax structure upon the growth and utilization of our productive resources.

We would also agree generally that the major economic study, which this committee plans to undertake, and another proposed by the administration, can shed much light on the various factors which must be considered under the Employment Act's objectives and the weight to be given each.

The differences between us, it seems to me, are in the means to be used and in the degree of emphasis to be given each objective.

The overriding issue, in my opinion, is peace—more so than the budget, very important as the budget is. The financial viability of the country is a major element in national security, and we cannot, therefore, lay aside budgetary considerations—but they cannot be permitted to be the primary determinant of our policy.

Under all the circumstances, I believe that we can come close enough to a balanced budget for the health of the economy and yet do all the things we have to do. I would not regard an excess of expenditures over budgeted revenues in the area of 5 percent of the budgetary figure as throwing the budget dangerously out of balance, and this, of course, assumes that we will not face any international crises jeopardizing the security of the country. Such an excess would, of course, be expected to represent both defense and nondefense items and would run between $2 billion and just under $4 billion.

A little loosening of the budget could be joined with tax revision and tax reform. I recognize the obligation to support an adequate tax structure, both in terms of continuing for the present the existing scale of most excise taxes and in terms of closing tax loopholes which presently permit large segments of the economy to escape their responsible share of the burden of government. That is why I favor a reasonable reduction in the 27½ percent oil depletion allowance, excessive mineral depletion allowances, and other special tax privileges. Also, consideration needs to be given to the encouragement of foreign private investment, the retirement needs of middle-income earners, and small business.

We must realize that we cannot work in exactitudes in this area. Our budget is based on estimates which are extremely generalized. We estimate the level of our economic activity more than 1½ years ahead in order to determine our potential revenues. We estimate even further ahead the national needs of many programs which are subject to events completely beyond our control, like international crises, wars, drought, and flood; even a minor change in the going rate of interest on Government bonds can throw off our budget estimates by hundreds of millions of dollars.

I believe in every effort to increase output and consumption and to promote economic growth. But, at a time of high economic activity like the present, this should not be accomplished through governmental "pump priming" or forced-draft Government spending—in the way in which they were applied to the recession at the end of 1957 and early 1958.

The emphasis in the majority report on continuing unacceptable levels of unemployment is, of course, fully justified, and I agree with the need for adequate unemployment compensation standards and payments to avoid distress and remanding of the unemployed to the welfare rolls. But I do not accept the easy theory of Federal Government expenditures to create employment which is implied in the majority views. This is a self-delusive answer under existing conditions and as unacceptable as the unemployment itself.

What is called for at the present time is stepped-up economic growth in the private sector to bring about reemployment, and that should be our main goal. Among the steps which could help economic growth materially is the establishment of "local productivity councils" similar to those which operated in various areas of the country during World War II. Consisting of top-level labor, management, and public representatives in a locality, these councils could make major contributions toward increased production, without sacrificing the interests, needs, and goals of either management or labor. A case in point is what they could do on the local level to modernize industry including the updating and standardizing of archaic building codes. The same urgency which led to the creation of these councils in wartime exists now—the cold war is mainly one of economic pressures—and similar measures are appropriate, particularly when they involve voluntary cooperation in the Nation's interest.

In line with meeting this problem, we should also consider methods for promoting public awareness of the problems created by an imbalance between wages and salaries and prices on the one hand, and production and consumption on the other. In this area lies the chief cause of the inflationary spiral—the constant, yet constantly less successful, attempt of these elements to catch up with each other.

We must make a very great effort overseas to develop new markets and new opportunities for investment. This is our greatest chance for economic expansion, equivalent to the "go west, young man" drive of the decades following the Civil War. We should place a great premium upon oversea private investment, encouraging it through governmental measures including tax advantages, guarantees, governmental services at home and abroad, and efforts by treaty and agreement to assure equal treatment and the integrity of investments. We should back up foreign private investment with long-term Government loans for "infrastructure" development purposes (ports, roads, sanitation, education, reclamation, navigation, and irrigation) while, at the same time, spending as needed for technical assistance and for the education and training of far more Americans than at present to engage in this technical assistance.

In considering economic growth patterns and our ability to progress in the various areas of national need, we must constantly consider the rising cost of defense expenditures as a major influence. The report of the Rockefeller Brothers Fund on the U.S. economy pointed out that—

> We can afford the defense programs essential for survival. In doing so, however, unless we achieve a 5-percent growth rate, we shall have to hold back otherwise desirable expenditures in the Government field and keep the growth of private expenditures below a level commensurate with our aspirations.

As to national needs, I believe that those financed from Federal appropriations must be conducive to the above objectives; hence I have favored middle-of-the-road programs for Federal aid as in the fields of housing, airports, highways, depressed areas, education, and health. I see less justification for federally financed power and similar development at this time. I do not believe that the budgetary impact of middle-of-the-road programs which primarily utilize Government guarantee techniques and the stimulation of private investment will cause budget imbalance of a prejudicial inflationary nature.

The problem of our metropolitan areas is a national one, not only because many like New York, Chicago, Washington, and Philadelphia extend beyond the boundaries of one State, but because these urban communities are the nerve centers of the Nation and contain the bulk of its productive resources. The health and growth of our cities are key items in the health and growth of our entire economy. With 6 out of every 10 American citizens living in the 186 biggest metropolitan areas, appropriate consideration on the Federal level must be given to their needs. Of the greatest importance are programs which will sustain and renew their growth and viability, increase their ability to produce, and reflect themselves in greater future values both for the particular community and for the Nation as a whole. In this respect I consider of the greatest significance those programs dealing with urban renewal and mass transportation, which, over a period of time, more than compensate for their costs.

I do not consider such expenditures inflationary when they increase directly the aggregate wealth of the country, especially in terms of its capacity to produce efficiently and economically and to provide products for which a legitimate demand remains unsatisfied at home and abroad. The effect of such increased wealth upon increased revenues, even existing rates, will be more than enough to cover these expenditures.

In its approach to farm policy and to expenditures in the agricultural sector, I find the majority's views especially hard to justify. It is naive to omit from consideration the fact that a substantial portion of increased farm output is directly attributable to production for Government price support payments. This factor is particularly damaging since the increase in output often bears no relationship at all to demand or needs; this is especially the case with the basic crops of wheat, cotton, corn, tobacco, rice, and peanuts. A reduction of the Federal Government's price guarantees is sound, but such a cutback must be coupled with more vigorous substantive programs—these will also cost money, but money infinitely better spent. They include increased industrial uses of farm products, more efficient mechanization, better marketing—including processing and packaging closer to the farm—and greater utilization of farm products in foreign aid. Our dairy farms in New York, for example, have shown a marked ability to adjust to a more realistic situation.

The additional problems of the family farm, cited by the majority, are often social ones and will not be solved by a subsidy. What is required here is credit, home and road improvement, extension services, specialization, and, as a last resort, means for transition from farm to town and an opportunity for retraining where the family farm is without reasonable economic prospect.

As an important concomitant of satisfactory growth, there must be the ability to invest and borrow at a reasonable cost. I believe that the economy of the country deserves and demands lower interest rates and that Congress should do its best to hold the line on the cost of borrowing. This should be done, however, through governmental and fiscal policy, through encouragement of Government bond buying by individual investors, by making governmental bonds more attractive, by judicious open market operations in the Government bond market, and through the encouragement of foreign investments and the expansion of foreign markets, rather than primarily through interest ceilings fixed by law. We cannot hope to accomplish such reduction of interest rates by attempting to peg specific rates of interest, such as those on veterans' home mortgages, at an unrealistic level below the rates required by the general money market, for the result of such a policy is to deprive that section of the economy of access to credit, rather than to reduce the cost of money available to it. Our programs for the achievement of lower interest rates must cover the entire credit structure.

In all these considerations, I think that the greatest importance should be placed on finding the methods which will maximize the use of the private sector of the economy to meet the needs of our people and our Nation, both at home and abroad. We must find the areas in which, without sacrificing the basic economic precepts of free enterprise and individual choice, we can expand our wealth, production, and employment while, at the same time, protecting our standard of living, our fiscal stability, and the value of the dollar.

As the Rockefeller report points out:

> In making the choices which will confront us, we have the opportunity to adopt a series of measures that could give us a more rapid economic growth. * * * Our choices are not necessarily limited by past rates of expansion—they encompass the possibility that we can adopt policies that provide positive stimuli to greater output.

Our task is to balance our needs, not with the thought that one goal must be sacrificed to achieve another, but with the full realization that we may be able to achieve most or all of them through a judicious use of our resources.

THE ECONOMIC OUTLOOK FOR 1959

LETTER OF TRANSMITTAL

FEBRUARY 23, 1959.

Hon. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: Transmitted herewith are committee staff materials on the economic outlook for 1959. These materials, as in previous years, attempt to quantify the "foreseeable trends" of economic activity for 1959 which, in the judgment of the staff, are consistent with the outlook assumptions of the President's Economic Report and budget, as well as those consistent with testimony during the recent committee hearings.

Detailed and precise figures must be used, of course, if economic projections are to be internally consistent; it is to be emphasized, however, 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,

RODERICK H. RILEY,
Executive Director.

THE ECONOMIC OUTLOOK FOR 1959

[NOTE.—References in text and tables are to numbered sections of the Technical Materials beginning on p. 58.]

The President's Economic Report and his budget message are based on confidence that economic recovery will continue in 1959.[1] This outlook assumes that—

(1) Gross national product for 1959 will be about $473 billion and the annual rate will reach the range of $480–485 billion by the fourth quarter; [2]

(2) Prices on the average will change little, but inflationary possibilities are present; [3]

(3) The rate of increase in output during 1959 will be slower than in the initial revival stage during 1958; [4]

(4) The year-to-year rise, 1958 to 1959, will be somewhat slower than after the 1954 recession; [5]

(5) Further improvement in economic activity will result from an upturn in business expenditures on fixed capital, a shift from inventory liquidation to accumulation, continued strength in residential construction, a further rise in combined outlays of Federal, State, and local governments, some improvement in exports, and increases in consumer purchases.[6]

(6) The budget for fiscal 1960 will be balanced at $77 billion.[7]

The President's Economic Report and his budget seem to reflect a belief that this outlook is consistent with the objectives of the Employment Act,[8] making due allowance for the fact that the economy is still recovering from the recession of 1957–58, and that therefore, although activity will increase during 1959, maximum employment, production, and purchasing power will not be reached before late in the year or in the first half of 1960. (See chart I, p. 53.) [9]

Will the total demands of consumers, business, and Government be large enough to result in realization of the assumptions underlying the President's Economic Report and budget as set forth above? This question is examined in the following sections of these materials on the basis of the record of the committee hearings and other information assembled by the staff.

DEMAND PROSPECTS FOR 1959 AS DEVELOPED IN COMMITTEE HEARINGS

Prospects for changes in demand by consumers, business, and Government in 1959 were analyzed by witnesses in the committee's hearings on the Economic Report of the President.[10]

Government expenditures

If expenditure policies conform to the President's budget message, Federal, State, and local demands for goods and services (on a national income and product account basis) are expected to total $97.5 billion for calendar 1959, an increase of $6.3 billion over 1958. State and local governments would account for $3.4 billion of this increase, reflecting mainly increased outlays for construction—particularly of schools and highways—and higher employee compensation. Federal expenditures for goods and services are scheduled to average $54.5 billion in calendar 1959, about $2.9 billion more than in 1958. The annual rate of such expenditures is scheduled to be about $55 billion in the first half of 1959, and then average a billion lower or $54 billion in the second half of 1959 and the first half of 1960. Total Federal expenditures on a national income and product account basis are scheduled to level out during all of 1959 and the first half of 1960 at about a $92 billion annual rate. This is in contrast to the rise in the annual rate of these expenditures of about $9.5 billion between the first quarter of 1958 and the first half of 1959, of which $5.3 billion represented a rise in the annual rate of purchases of goods and services.[11]

Business plant and equipment outlays

Business investment in new plant and equipment appears likely to begin to rise in 1959, with the rate accelerating in the latter part of the year. Lower outlays than in 1958 by manufacturers are expected to be offset by rising outlays by nonmanufacturing firms. Manufacturing companies are expected to continue to report slight declines in capital expenditures through part of this year. Recent modest rises in their capital appropriations for future spending, as reported in the NICB-Newsweek survey, point toward rising rates of expenditure by manufacturers later in 1959. This pattern seems consistent with the McGraw-Hill survey of last October which indicated a 3-percent decline in manufacturing capital outlays for 1959 compared to 1958, but with a counterbalancing increase in the nonmanufacturing sector. This equality of total private capital outlays in 1958 and 1959 implies a rise during 1959, since the rate of spending in the fourth quarter of 1958 was below the year's average. The next Government survey (SEC-Commerce) of such plans, now underway and to be available in March, will shed further light on prospects for business fixed investment this year. The professional consensus, on the basis of present information, is not significantly different from the assumptions implicit in the Economic Report.[12]

Residential construction

Residential construction (nonfarm) is generally expected to average about $2 billion higher in 1959 than in 1958, or about the same as the $20 billion per year rate reached in the fourth quarter of 1958. Housing starts are expected to average close to 1.3 million this year compared to about 1.2 million in 1958 and an annual rate of about 1.45 million (preliminary) in December 1958. This implies a high rate of housing starts at the beginning of 1959, tapering off as the year progresses. The extent of the decline in starts is expected to depend on availability of funds for home mortgage financing. Actual expenditures (construction put in place) are expected to be higher than in 1958, in part because of a modest rise in average cost per unit.[13]

Business inventories

Heavy liquidation of business inventories in the early months of 1958 slackened as the year progressed and ceased altogether by the fourth quarter. Present conditions appear to be favorable to rebuilding of inventories. The annual rate of inventory accumulation is expected to move rapidly to over $5 billion and may reach $6 billion or more in the fourth quarter, particularly if steel inventories are depleted by a strike in the third quarter. This pattern could result in an average accumulation of $4 billion or more for the year.[14]

Personal consumption

Consumption as a whole is likely to move pretty much in line with disposable personal income. At the end of 1958 the rate of personal saving, about 6 percent, was about as low as it has been since 1950, so that the savings ratio might be expected to rise somewhat during 1959. This may be moderated by a rise in automobile purchases at a rate more than proportionate to income. If events develop along these lines, total consumption could rise by $15 billion or more between the fourth quarters of 1958 and 1959. For 1959 as a whole, total consumer expenditures would amount to about $306–$308 billion.[15]

International

Improvement in economic activity at the rate indicated by the above analyses would generate an increase in our imports; expenditures for services and overseas military spending should also be higher than in 1958. Government foreign aid is expected to be about the same as last year. Private foreign investment could then maintain approximately the 1958 level. Exports are expected to pick up as the year progresses, and other uses of dollars to increase. On balance the transfer of gold and dollars to foreign accounts might average less than in 1958, with the rate of transfer declining as the year progresses.[16]

In total, these analyses of prospective demands in 1958, as presented at committee hearings, amount to about $470–$475 billion for the year as a whole and to an annual rate of about $480–$485 billion by the fourth quarter.[17] Implicit in this outlook is a rise of about 1 to 1½ percent in prices as measured by the gross national product deflator, although the consumer price index is expected to be roughly stable. The rise in the deflator would result almost wholly from rises in construction costs and increased compensation of Government employees (principally State and local).[3]

The Nation's Economic Budget for 1959

A national economic budget for 1959, consistent with the assumptions underlying the President's Economic Report and his Budget Message, is shown in table 1 (p. 56). Government expenditures, personal income, and corporate profits are those transmitted by the executive branch. Other details are consistent with, though not necessarily identical to, those of the executive branch, which, as a matter of policy, does not publish detailed numerical estimates of its economic assumptions.

Chart I (p. 53) illustrates the relation of this assumed gross national product of $473 billion for 1959 to past changes in actual output and to potential output calculated from experience of past years not marked by war or severe recession.[25] The quarterly deflated gross national product shown in chart I is the series published for the first time in December 1958 by the Office of Business Economics of the Department of Commerce, converted from 1954 dollars to the price level of the fourth quarter of 1958, using their deflator. This series replaces a tentative quarterly series by the committee staff used on similar charts in past years.

Comparison of the economic assumptions for 1959 implied in the President's Economic Report and budget with the demand prospects for 1959 developed during the committee hearings, as summarized in the previous section, reveals some differences in details and in emphasis, but no significant difference in the expected overall output for the year or in the relationship of demand to the potential output.

What are the implications of this analysis, and of the numerical estimates in which it is summarized?

(1) If the gross national product of $473 billion for 1959 implied in the President's Economic Report and budget does not assume any price increase after the fourth quarter of 1958, then, as indicated by pattern A on chart 1, the assumed output for the year, if realized, will be about $12 billion or 2.5 percent below the potential output of about $485 billion (expressed in prices prevailing in the fourth quarter of 1958). The corresponding rate of increase in output during the year would be slower than that experienced between the second and fourth quarters of 1958.

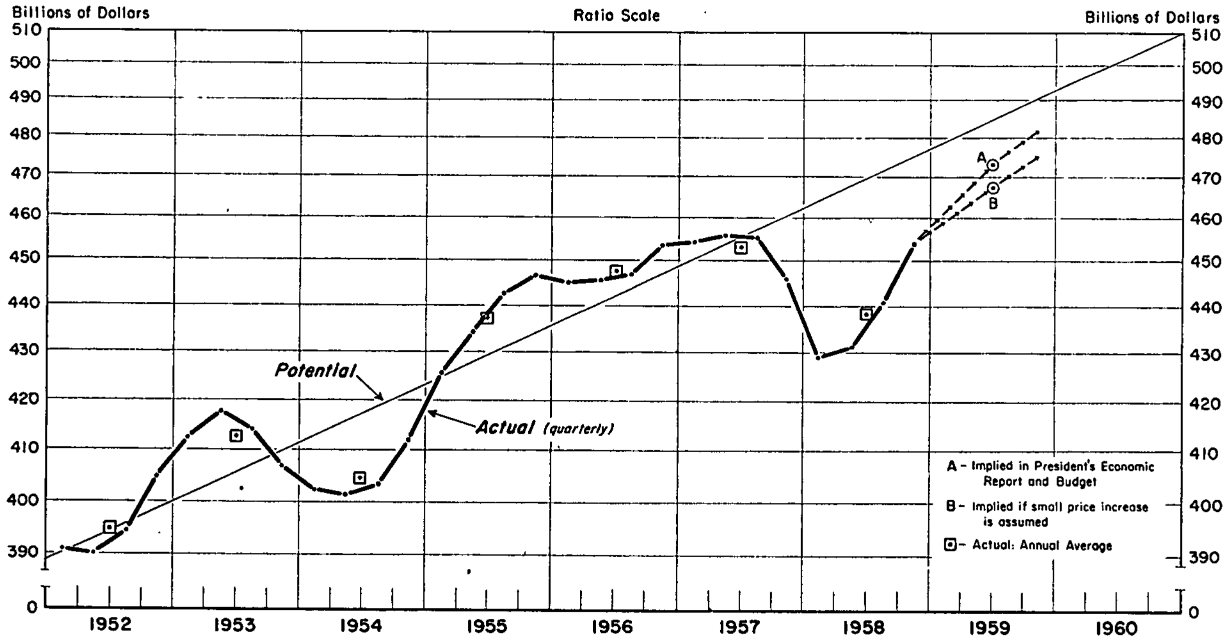
On the other hand, the assumed gross national product of $473 billion for 1959 as a whole may allow for a modest price increase, reflecting mainly expected rises in construction costs and in compensation of government employees.[3] Then the gross national product for 1959 of $473 billion would be lowered to perhaps $467.5 billion in terms of the prices of the fourth quarter of 1958 used for chart I—a level $17.5 billion or 3.6 percent below the potential output (pattern B on chart I).

In either case, the assumptions underlying the President's Economic Report and budget imply: (*a*) that the rate of rise in output during 1959 will be slower than during the second half of 1958 though faster than the long-term rate of increase; and (*b*) that output and employment are not expected to reach the potential growth trend before the end of 1959 or, perhaps, sometime in 1960.

(2) How much unemployment might be experienced this year if the assumed output increases are realized? Since the amount or percent of unemployment will depend on several factors, a number of outcomes are possible. On the assumption that the labor force will increase in line with longrun relationships to population changes and that the recovery in hours worked was largely complete by the fourth quarter

CHART I. POTENTIAL GROSS NATIONAL PRODUCT COMPARED TO ACTUAL 1952-1958, AND ASSUMED FOR 1959

(In constant 4th quarter 1958 prices--seasonally adjusted)



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

of 1958, prospects for this year can be illustrated by the following tabulation:

A. If prices are assumed to remain constant after the fourth quarter of 1958, then the average gross national product of $473 billion for 1959 implies that—

If output per man-hour increases between the fourth quarters of 1958 and 1959 by—	Unemployment, seasonally adjusted, in the fourth quarter of 1959 will be—
1 percent	3 percent
2 percent	4 percent
3 percent	5 percent
4 percent	6 percent
5 percent	7 percent

B. If prices are assumed to increase by 1½ percent from the fourth quarter of 1958 to the fourth quarter of 1959, then the average gross national product for 1959 valued in prices prevailing in the fourth quarter of 1958, would be $467.5 billion instead of $473 billion, which would imply that—

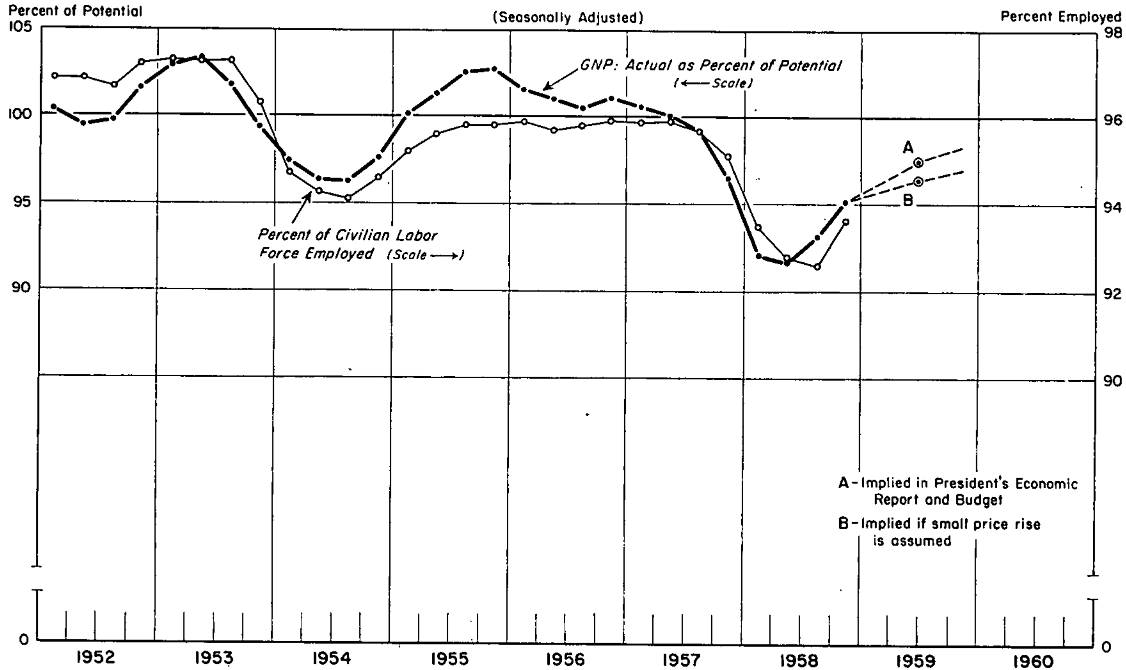
If output per man-hour increases between the fourth quarters of 1958 and 1959 by—	Unemployment, seasonally adjusted, in the fourth quarter of 1959 will be—
1 percent	4 percent
2 percent	5 percent
3 percent	6 percent
4 percent	7 percent
5 percent	8 percent

In past years of revival from a contraction, such as 1949–50 or 1954–55, output per man-hour has increased by above-average rates and the bulk of the recovery in hours worked occurred in the first 6 to 9 months. If this pattern of recovery unfolds again in this cycle, one would expect the total increase in the combination of hours worked and output per man-hour to be in the range of 3 to 5 percent per year. Therefore, unemployment (seasonally adjusted) might range between a low of 5 to 6 percent and a high of 7 to 8 percent.

This analysis, of course, assumes that the labor force will increase in line with longrun relationships to population growth. If continued unemployment were accompanied by a slower rate of growth in the labor force, as in 1958, the percent unemployed would be lower than indicated above.[26] Considering the necessarily approximate character of any such calculations, the economic assumptions underlying the President's Economic Report and his budget imply little reduction in the seasonally adjusted rate of unemployment.

The employment and unemployment implications of the outlook may be clearer if we look graphically at the relation of employment to output in recent years. Chart II, which is derived from the data underlying chart I, shows two lines: (*a*) the actual gross national product in constant prices as a percent of the potential; and (*b*) employment as a percent of the civilian labor force. Since the potential assumes 4 percent unemployment, the 100 percent mark on the left scale for the output percentage has been lined up with the 96 percent mark of the right scale for the percent employed. The scales were chosen so that the fluctuations of the two lines are of about the same size. The assumed patterns A and B of chart I also appear on chart II.

CHART II. RATE OF OUTPUT COMPARED TO RATE OF EMPLOYMENT, ACTUAL 1952-1958, AND ASSUMED FOR 1959



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

It will be seen that a slower recovery in employment than in output in the coming year would be consistent with the recovery pattern of 1954–55; and if output rises as slowly as now assumed, the percentage of the civilian labor force with jobs could be expected to rise very little this year—i.e., the percent unemployed, seasonally adjusted, would fall very little.[30]

TABLE 1.—*Summary of the Nation's economic budget, calendar years, actual 1956 and 1957, preliminary 1958, and estimated 1959*

[Billions of dollars]

Item	Actual 1956	Actual 1957	Preliminary 1958	Estimated 1959 [2 3]
Personal:				
Income: Total disposable	290.5	305.1	311.6	[12] 328.0
Expenditures:				
Durable goods	38.4	39.9	36.8	41.0
Nondurable goods	131.4	138.0	141.9	149.0
Services	99.6	106.5	111.9	118.5
Total expenditures	269.4	284.4	290.6	[15] 308.5
Savings (+)	21.1	20.7	21.0	[19] 19.5
Business:				
Income:				
Undistributed corporate profits	11.0	9.4	5.6	[18] 10.0
Capital consumption allowances	34.7	37.7	39.6	[20] 42.5
Inventory valuation adjustment	−2.6	−1.5	−.2	−1.0
Total income	43.2	45.6	45.0	51.5
Expenditures:				
Construction:				
Residential (nonfarm)	17.7	17.0	17.8	[13] 20.0
Other private	18.1	19.4	18.7	[12] 19.0
Producers' durable equipment	27.0	27.9	22.6	[12] 24.0
Net change in business inventories	5.4	1.0	−4.7	[14] 3.0
Total expenditures	68.2	65.3	54.4	66.0
Dissavings (−)	−25.0	−19.7	−9.4	−14.5
International:				
Foreign net transfers by Government	1.4	1.5	1.3	1.2
Net exports of goods and services	2.8	4.9	1.4	[16] 1.0
Excess of transfers (+) or net exports (−)	−1.4	−3.5	−.1	[16] +.2
Government:				
Income:				
Personal tax and nontax payments	40.1	42.7	42.8	46.0
Business tax and nontax payments	58.0	59.2	57.1	65.0
Contributions for social insurance	12.3	14.2	14.4	15.6
Less transfer payments, etc.[21]	25.3	28.8	33.3	34.3
Total income	85.1	87.4	81.1	[11] 92.3
Expenditures:				
Federal	45.7	49.4	51.7	54.5
National security	40.3	44.3	44.4	45.7
Other	5.4	5.1	7.3	8.8
State and local	33.1	36.3	39.6	43.0
Total expenditures	78.8	85.7	91.2	[11] 97.5
Savings (+) or dissavings (−)	+6.3	+1.7	−10.2	−5.2
Statistical discrepancy (+) or (−)	−.9	+.7	−1.2	0
Total gross national product	419.2	440.3	437.7	473.0

NOTE.—Reference numbers in this table correspond to numbered items in the Technical Materials, p. 58.

Sources: 1956–58, Office of Business Economics, Department of Commerce; and 1959, Staff, Joint Economic Committee.

TABLE 2.—*Relation of gross national product, net national product, national income, and personal income, calendar years, actual 1956 and 1957, preliminary 1958, and estimated 1959*

[Billions of dollars]

Item	Actual 1956	Actual 1957	Preliminary 1958	Estimated 1959 [2, 3]
Gross national product	419.2	440.3	437.7	473.0
Less: Capital consumption allowances	34.7	37.7	39.6	[20] 42.5
Equals: Net national product	384.5	402.6	397.1	430.5
Less:				
Indirect business tax and nontax liability	35.6	37.6	38.6	[11] 41.5
Business transfer payments	1.5	1.6	1.6	1.6
Statistical discrepancy	−.9	.7	−1.2	0
Plus: Subsidies less current surplus of Government enterprises	1.0	1.3	1.5	[11] 2.2
Equals: National income	349.4	364.0	360.5	389.6
Less:				
Corporate profits and inventory valuation adjustment	42.9	41.9	36.2	[22] 46.0
Contributions for social insurance	12.3	14.2	14.4	[11] 15.6
Excess of wage accruals over disbursements	0	0	0	0
Plus:				
Government transfer payments	17.1	19.9	24.3	[11] 24.4
Net interest paid by Government	5.7	6.2	6.2	[11] 6.5
Dividends	12.0	12.4	12.3	13.5
Business transfer payments	1.5	1.6	1.6	1.6
Equals: Personal income	330.5	347.9	354.4	[23] 374.0
Less:				
Personal tax and nontax payments	40.1	42.7	42.8	[11] 46.0
Federal	35.2	37.4	37.0	40.0
State and local	4.8	5.4	5.8	6.0
Equals: Disposable personal income	290.5	305.1	311.6	328.0
Less: Personal consumption expenditures	269.4	284.4	290.6	308.5
Equals: Personal savings	21.1	20.7	21.0	19.5
Percent	7.2	6.8	6.7	5.9
Addendum:				
Corporate profits and inventory valuation adjustment	42.9	41.9	36.2	[22] 46.0
Inventory valuation adjustment	−2.6	−1.5	−.2	−1.0
Corporate profits before tax	45.5	43.4	36.4	[22] 47.0
Corporate profits tax liability	22.4	21.6	18.6	[11] 23.5
Corporate profits after tax	23.1	21.8	17.9	23.5
Dividends	12.0	12.4	12.3	[24] 13.5
Undistributed corporate profits	11.0	9.4	5.6	10.0

NOTE.—Reference numbers in this table correspond to numbered items in the Technical Materials, p. 58.

Sources: 1956–58, Office of Business Economics, Department of Commerce; and 1959, Staff, Joint Economic Committee.

TABLE 3.—*Actual and "potential"* [25] *gross national product in constant 1954 prices, calendar years 1957–59*

Item	1957		1958		1959
	Actual	Potential [25]	Preliminary	Potential [25]	Potential [25]
Total labor force (in millions)	70.7	[26] 70.7	71.3	[26] 71.5	[26] 72.6
Armed Forces	2.8	3.0	2.6	3.0	3.0
Civilian	67.9	67.7	68.6	68.5	69.6
Unemployment	2.9	[27] 2.7	4.7	[27] 2.7	[27] 2.8
Percent of labor force	4.3	4.0	6.8	4.0	4.0
Employment	65.0	65.0	64.0	65.8	66.8
Private	57.9	58.4	56.6	59.0	59.9
Agriculture	6.2	6.2	5.8	6.1	6.0
Nonagriculture	51.7	52.2	50.8	53.0	53.9
Government-civilian [28]	7.1	6.6	7.3	6.7	6.9
Private:					
Average annual hours:					
Agriculture	2,296.5	2,387.0	2,272.2	2,368.0	2,349.0
Nonagriculture	2,004.9	1,975.0	1,982.3	1,960.0	1,940.0
Output per man-hour (in 1954 dollars): Total private	$3.169	$3.212	$3.167	$3.307	$3.394
Agriculture	$1.456	$1.306	$1.649	$1.345	$1.385
Nonagriculture	$3.409	$3.483	$3.368	$3.578	$3.664
Gross national product (in billions of 1954 dollars)	$407.0	$411.1	$394.3	$424.1	$436.5
Total private	373.8	378.3	361.0	390.8	402.7
Agriculture	20.8	19.2	21.9	19.3	19.5
Nonagriculture	353.0	359.1	339.1	371.5	383.2
Government [29]	33.2	32.8	33.3	33.3	33.8

NOTE.—Reference numbers in this table correspond to numbered items in the Technical Materials, pp. 58 ff. Detail will not necessarily add to totals because of rounding.

Sources: Population, labor force, and average annual hours—Bureau of the Census, Department of Commerce; gross national product—1957 actual and 1958 preliminary, Office of Business Economics, Department of Commerce; 1959 potentials—Staff, Joint Economic Committee.

TECHNICAL MATERIALS

These technical materials correspond to the numbered references in the preceding text and tables. In addition to references to sources of information, these materials contain definitions of terms, explanations of points of analysis, statements of basic assumptions, and supporting materials drawn from committee hearings on the January 1959 Economic Report of the President, from that report itself, from the President's January 1959 Budget Message, from other official statements or reports, and other sources.

(1) The general character of the administration's outlook is given in the January 1959 Economic Report of the President (hereinafter cited "Economic Report"), page IV, as follows:

> As 1959 opens, there is reason for confidence that the improvement in business activity which began in the second quarter of last year will be extended into the months ahead.

(2) The estimate of a gross national product of $473 billion for 1959, a range of $480–485 billion for the fourth quarter, and the associated detailed income and expenditure estimates reflect assumptions contained in executive branch statements, and the Joint Economic Committee staff's interpretation of levels and trends consistent with the President's Economic Report and budget. These estimates in tables 1 and 2 rest on various assumptions and reasons given in these numbered technical notes. See also statement of Maurice H. Stans, Director, Bureau of the Budget, in his letter to Representative Bolling (Hearings on the January 1959 Economic Report of the President Before the Joint Economic Committee, 86th Cong., 1st sess., p. 89; hereinafter cited "Hearings").

(3) Several statements on prices and on price expectations for 1959 were made by the executive branch. The Economic Report states on page 51:

> Acceptance by the Congress of the expenditure level of the 1960 budget would be the most important single step in discharging Government's responsibility to help preserve the stability of prices and costs through prudent management of its own financial affairs.

Testifying before the committee, Dr. Ewan Clague, Commissioner, Bureau of Labor Statistics, stated:

> The decline in agricultural and food prices should continue, at a moderate pace, in the coming months, assuming that weather conditions are reasonably favorable. On the other hand, there is every likelihood that the rise in the cost of services will continue.
>
> In addition, the maintenance of the present pace of business recovery will probably exert new upward pressures on industrial prices. Thus, it seems fairly clear that these two opposing forces—declining farm and food prices and rising costs of services and some industrial items—will tend to offset each other in the immediate future, keeping the indexes relatively stable (Hearings, p. 96).

Likewise, Wm. McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, testified that he expected price stability for the immediate future, but he qualified this by expressing a concern over the danger of a renewal of inflationary trends later in the year (Hearings, pp. 464, 466–468). Dr. Clague expressed an expectation of a rise in construction costs (Hearings, p. 109), and Dr. Louis J. Paradiso, Assistant Director and Chief Statistician, Office of Business Economics, U.S. Department of Commerce, expected that compensation of State and local employees would continue to rise (Hearings, p. 146). In his letter to Representative Bolling, Budget Director Stans stated:

> The budget estimates have been prepared on the basis of prices remaining, on the average, at their present level; exceptions to this general rule may occur in certain cases where agencies may have made allowances for changes based on actual experience with specific areas of procurement. (Hearings, p. 89.)

It may be that the executive branch economic assumptions reflect no further price increase on the average from the level in the fourth quarter of 1958. In this case the rise in gross national product from $453 billion in the fourth quarter of 1958 to the annual average of $473 billion in 1959 would be an increase in real terms as shown by A on chart I. If, however, some increase in prices is assumed—say 1½ percent from year to year—then the increase in gross national product in real terms (fourth quarter 1958 prices) would be somewhat lower, as shown by B on chart I (p. 53).

(4) This is clear from chart I, which shows a slower rate of increase during 1959 than in the second half of 1958. In addition, see the statement of Robert B. Anderson, Secretary of the Treasury (Hearings, p. 436).

(5) Secretary Anderson, speaking of increases in 1959 (Hearings, p. 399), said:

> * * * The increases they represent imply a continued vigorous recovery, but at a slightly lesser rate than we experienced after the 1954 recession.

(6) Economic Report, pages IV–V, and pages 30–32.

(7) Economic Report, page VI, and page 32.

(8) In his budget for fiscal 1960 submitted to Congress January 19, 1959, the President stated:

> We are now entering a period of national prosperity and high employment (Budget of the United States Government for the Fiscal Year Ending June 30, 1960, pp. M5, hereinafter cited "1960 Budget").

The nearest to an explicit statement on this point to be found in the Economic Report is on page 32 as follows:

> With due allowance for the limitations that surround all efforts to forecast the probable course of activity in a free economy, there is a reasonable basis for confidence that the recent improvement in activity will be extended into the months ahead. However, it must be recognized that the actions of all individuals and groups in the Nation—consumers, business concerns, labor organizations, and Government—will have a decisive bearing on the outcome. All must play their parts appropriately if the high levels of employment, production, and purchasing power envisaged by the Employment Act are to be attained. A significant contribution by Government to the accomplishment of this purpose, and particularly to the achievement of the price stability essential for sustainable economic growth, would be assured by the economic program outlined in chapter 4. That program is recommended to the favorable attention of the Congress.

See also statement of Mr. Stans in his letter to Representative Bolling, Hearings, page 89. Also his statement (Hearings, p. 65) as follows:

> * * * Certainly, it is the view of the administration that the 1960 budget as transmitted to the Congress is in accord with the objectives of the Employment Act of 1946 and, if accepted and approved by the Congress, would meet the needs of the economy as we now see them.

See also comments of Dr. Raymond J. Saulnier, Chairman, Council of Economic Advisers, Hearings, p. 24.

(9) It seems a reasonable deduction from chart I that the recovery will not carry to levels consistent with "maximum employment, production, and purchasing power" before the end of 1959 or early 1960, although no explicit statement on this point by administration spokesmen could be found. However, this point was explicitly made by other witnesses during the hearings, in referring to their own expectations which turned out to be roughly similar to those expressed by the executive branch. (See Hearings, pp. 184–185.)

(10) The hearings were supplemented where necessary with additional information assembled by the staff from official and private sources.

(11) Estimates of Government receipts and expenditures are based on the President's budget for 1960 and on the translation of the budget and analysis of State and local finances contained in testimony of Dr. Paradiso. (Hearings, pp. 144–149.) The calendar year estimates are either given directly in Dr. Paradiso's testimony or were calculated from the fiscal year estimates by interpolation. His tabular summary of Federal receipts and expenditures is reproduced below:

EXHIBIT 1

Federal Government receipts and expenditures: Administrative budget, cash budget, and national income and product account, 1958–60

[Billions of dollars]

	Fiscal years		
	1958 actual	1959 estimated	1960 estimated
Receipts:			
Administrative budget	69.1	68.0	77.1
Plus: Trust fund receipts	16.3	17.6	20.5
Less: Intragovernmental transactions and other adjustments	3.6	3.9	4.1
Equals: Cash receipts from the public	81.9	81.7	93.5
Plus:			
Excess of tax accruals over tax collections, corporate	−2.3	4.0	1.5
Miscellaneous adjustments [1]	−1.2	−1.2	−1.5
Equals: National income and product account receipts	78.3	84.5	93.5
Expenditures:			
Administrative budget	71.9	80.9	77.0
Plus:			
Trust fund expenditures	16.1	18.9	20.3
Government-sponsored enterprise expenditures (net)	−.6	.9	.1
Less: Intragovernmental transactions and other adjustments (including IMF notes)	4.0	5.7	4.5
Equals: Cash payments to the public	83.4	94.9	92.9
Less:			
Loans and other capital transactions	1.5	3.9	1.1
Miscellaneous adjustments [2]	−.6	0	−.2
Equals: National income and product account expenditures	82.5	91.0	92.0
Surplus or deficit (−):			
Administrative budget	−2.8	−12.9	.1
Cash budget	−1.5	−13.2	.6
National income and product account	−4.2	−6.5	1.5

[1] Includes such receipts as those of the District of Columbia, contributions to Federal retirement funds, and receipts of capital items like repayment of loans.

[2] Includes such expenditures as those of the District of Columbia, government-sponsored enterprises, contributions to Federal retirement funds, and accrued interest on savings bonds and Treasury bills.

Source: Administrative and cash budgets from the Budget of the United States Government for the Fiscal Year Ending June 30, 1960; national income and product account data from the U.S. Department of Commerce, Office of Business Economics, data for 1959 and 1960 based on estimates in the budget.

Exhibit 2

Federal Government expenditures on national income and product account, 1957–60

[Billions of dollars]

	1957				1958				1959 [2]		1960, 1st half [2]	Fiscal years			Calendar years		
	I	II	III	IV	I	II	III	IV [1]	1st half	2d half		1958	1959 [2]	1960 [2]	1957	1958 [1]	1959 [2]
Total expenditures	77.7	80.1	79.9	80.8	82.8	86.0	88.7	90.6	92.3	91.8	92.0	82.5	91.0	92.0	79.6	87.0	92.0
Purchases of goods and services (less sales)	49.1	49.7	49.7	49.1	49.7	50.7	52.2	53.8	55.0	54.0	54.0	49.7	54.0	54.0	49.4	51.6	54.5
National defense	43.7	44.9	44.9	43.9	43.7	44.1	44.5	45.0	46.0	45.5	45.5	44.1	45.5	45.5	44.3	44.3	45.7
Other expenditures	28.6	30.5	30.2	31.8	33.0	35.4	36.5	36.8	37.2	37.8	38.0	32.6	37.0	38.0	30.1	35.4	37.5
Grants-in-aid	3.9	3.8	4.3	4.4	4.4	4.8	5.4	6.0	6.2	6.4	6.6	4.5	5.9	6.5	4.1	5.1	6.3
Transfer payments	16.0	17.8	17.1	18.6	19.5	21.5	22.1	21.7	21.0	21.7	22.1	19.2	21.4	21.9	17.3	21.2	21.3
To persons	14.6	16.0	15.9	17.2	18.3	20.3	20.9	20.5	19.8	20.5	20.9	18.0	20.2	20.7	15.9	20.0	20.1
To abroad	1.4	1.8	1.2	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.5	1.2	1.2
Interest	5.5	5.7	5.7	5.7	5.7	5.7	5.6	5.6	5.6	5.9	6.3	5.7	5.6	6.1	5.6	5.7	5.8
Subsidies less current surplus Government of enterprises	3.2	3.2	3.1	3.1	3.4	3.4	3.4	3.5	4.4	3.8	3.0	3.2	4.0	3.5	3.1	3.4	4.2

[1] Preliminary.
[2] Estimated.

Source: U.S. Department of Commerce, Office of Business Economics. Data for 1957 and 1958 are actual; data for 1959 and 1960 are based on estimates in the Budget of the United States Government for the Fiscal Year ending June 30, 1960.

(12) Prospects for business investment in new plant and equipment were analyzed in the Economic Report on page 30, and during the committee hearings. See particularly the testimony of Martin R. Gainsbrugh, chief economist, National Industrial Conference Board, Hearings, pages 151–159; and comments by other members of the outlook panel, Hearings, pp. 191–192.

(13) Estimates of residential nonfarm construction, of housing starts, and of construction costs reflect the Economic Report, pages 30–31, and testimony of Dr. Clague, Hearings, pages 109–110 and of Robinson Newcomb, consulting economist, Hearings, pages 149–151.

(14) See Economic Report, page 32, and testimony of Prof. Irwin Friend, University of Pennsylvania, Hearings, pages 159–163.

(15) See Economic Report, page 32; testimony of Dr. Friend, Hearings, pages 160–161; and estimates by other members of same outlook panel. The most recent survey of consumer buying plans under the NICB-Newsweek program suggests "continued improvement of possibly moderate rather than buoyant dimensions in consumer market," Conference Board Business Record, February 1959, pp. 65–81.

The preliminary findings of the 1959 Survey of Consumer Finances, released by the Board of Governors of the Federal Reserve System on March 6, 1959, indicate that early this year consumers viewed their financial situations and prospects more favorably than a year ago, and the proportion who planned to make major expenditures during 1959 was moderately larger than in early 1958.

(16) Economic Report, page 31; and Hearings, pages 164–167, where international economic picture was analyzed by Dr. William F. Butler, vice president, the Chase Manhattan Bank.

(17) See particularly statements of Butler (p. 165), Friend (p. 159), Colm (pp. 441–445), Fellner (pp. 199–200), in the Hearings.

(18) For derivation, see table 2, page 57.

(19) Neither the Economic Report nor Dr. Saulnier's testimony is explicit about the rate of savings in 1958. The assumed rate of approximately 5.9 percent seems consistent with the general tenor of the Economic Report, and is close to the rate in the fourth quarter of 1958, estimated in the Economic Report, table D13, page 154.

(20) Capital consumption allowances reflect continuation of recent trends.

(21) Includes government transfer payments, net interest paid by Government, and subsidies minus surplus of Government enterprises.

(22) The corporate profits assumption for 1958 and 1959 underlying the President's Economic Report and budget was stated by Treasury Secretary Anderson as follows:

> * * * the corporate profits assumption of $47 billion for 1959 compares with a rate for the fourth quarter of 1958 of $44 billion" (Hearings, p. 399).

(23) Assumption underlying the President's Economic Report and budget as stated by Treasury Secretary Anderson (Hearings, p. 399).

(24) Dividends assumed to be 57.4 percent of profits after tax in 1959, compared to 68.7 percent in 1958 and 56.9 percent in 1957.

(25) The potentials are consistent with longrun projections published in "Potential Economic Growth of the United States During the Next Decade" (materials prepared for the Joint Economic Com-

mittee by the committee staff, joint committee print, 83d Cong., 2d sess.). The word "potential," therefore, refers to average longrun relationships in past years, exclusive of those marked by war or severe contraction in activity. The estimates given in table 3 are consistent with the original estimates made in 1954, but incorporate revisions in data and a change to 1954 prices.

(26) It is assumed that the potential labor force will increase about 1.1 million from 1958 to 1959. See testimony of Dr. Clague, Hearings, pages 97–99 and 111.

(27) 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.

(28) Estimates of civilian Government employment were taken from the estimates of the National Income Division, Office of Business Economics, U.S. 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.

(29) Government gross product represents compensation of general government employees—civilian and military. The potential is based on assumed trends in Government employment given in the original study of 1954 cited in note 25 above.

(30) In this connection see the discussion of unemployment and unemployment prospects in the testimony of Ewan Clague, Commissioner, Bureau of Labor Statistics, U.S. Department of Labor Hearings, page 102.

REVIEW OF THE MATERIALS ON "THE ECONOMIC OUTLOOK FOR 1958"

One year ago the staff transmitted to the chairman for the use of the committee materials which attempted to quantify the "foreseeable trends" of economic activity in 1958 which it then believed were consistent with the outlook assumptions contained in the 1958 Economic Report of the President and the budget, as well as those contained in testimony heard during the committee hearings.[1] It is now possible to make a tentative review of last year's outcome in relation to those advance estimates brought together in January and early February of 1958.

A year ago, the staff reported two sets of demand assumptions: those implied in the President's Economic Report and budget (labeled "A" in the tables) and alternative estimates derived from testimony in the record of the committee hearings on the President's Economic

[1] 1958 Joint Economic Report, Report of the Joint Economic Committee on the January 1958 Economic Report of the President, H. Rept. 1409, 85th Cong., 2d sess., pp. 17–44.

Report and other information from official and private sources (labeled "B").

The analysis estimated that the January 1958 Economic Report and budget probably implied a demand for gross national product in 1958 of $445 billion; little change in prices from the level at the beginning of the year; and a recovery under way by the third quarter at the latest.

The alternative estimates of government, business, and consumers derived from committee hearings and other information, labeled "B," implied a demand for gross national output of $429 billion for 1958; and that "unless present private and public policies are changed, the current decline in economic activity is likely to continue through at least midyear." Furthermore, the staff pointed out, with regard to the alternative estimates:

> Basing their conclusions mainly upon current expectations that private spending for plant and equipment will continue to decline throughout this year and perhaps into 1959, some suggest that it would be hazardous to base public policies on the assumption of a substantial recovery even in the second half. This weakness in the investment sector has generally been attributed to a rate of increase in aggregate demand too slow to provide markets for the output from rapidly rising capacity in the last 3 years.

To compare the two estimates of gross national product for the year with the actual outcome, two adjustments are necessary. First, upward revisions of the 1957 and earlier benchmark data, from which projections were made a year ago, were published in July 1958. Second, the two estimates of last year must be raised by about 1 percent to adjust for price increases in 1958 above the assumed level.

The preliminary official estimate for 1958 is $436.7 billion. This is $17.9 billion, or 3.9 percent, below the gross national product assumption implied in the President's Economic Report and budget a year ago, amounting to $454.6 billion when adjusted as indicated for data revisions and price rises. The actual demand was also $1.7 billion, or 0.4 percent, below the lower alternative estimate of demand, which was $438.4 billion when similarly adjusted.

Demand assumptions of January 1958 versus actuals

[In billions of dollars]

	A	B
Gross national product: January 1958 assumed	$445.0	$429.0
Adjustment for—		
Revision of 1957 benchmark data	+6.0	+6.0
Increase in prices over assumed	+3.6	+3.4
Adjusted gross national product	454.6	438.4
Gross national product: Preliminary January 1959	436.7	436.7
Amount below adjusted January 1958 assumption	−17.9	−1.7
Percent	−3.9	−0.4

If the preliminary estimate is confirmed by later more complete information, demand turned out slightly lower for the year than even the more pessimistic estimates of a year ago. In the past, the preliminary estimates have tended to be a little below the later revised data. On the other hand, the preliminary estimates for 1958 have not been revised to reflect lower plant and equipment expenditures in the last three quarters as reported in the surveys of business expenditures. These two factors could largely offset each other. In that case, the preliminary estimate for total gross national product for 1958 may be closer to later revised estimates than is usual. However, it is clear that the actual has turned out to be about in line with or, at most, slightly above the lower (B) estimate representing the consensus of experts, but still significantly below the estimate (A) implied in the Economic Report and Budget.

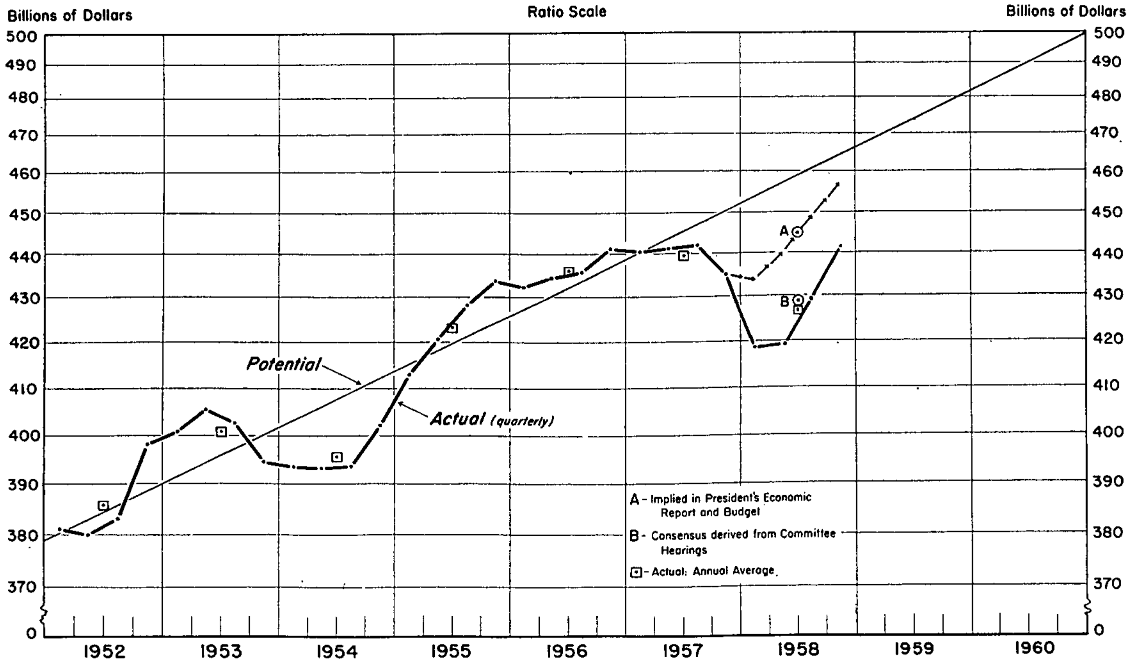
The 1958 decline in economic activity appears to have reached a low in April and then to have turned up. Measured in terms of industrial output the turn was sharp and the recovery quite rapid until the fourth quarter. Measured in terms of total national output (GNP) in constant prices, the low was reached in the first quarter, about 5½ percent below the third quarter of 1957. Little change occurred in the second quarter, but output rose rapidly in the second half. Output in the fourth quarter was 5.6 percent above the first quarter and almost at the peak level of the summer of 1957. This course of decline and recovery was similar to that envisioned in the Economic Report a year ago. The average level for the year, on the other hand, as already pointed out, was close to the more pessimistic estimate (B) of a year ago, rather than the optimistic assumptions underlying the Economic Report and Budget.

The outcome for 1958 is shown on the accompanying reproduction of chart I of last year's report. The chart has been extended through 1960 and 1958 actual data have been plotted for comparison with the estimates made a year ago. The actuals for 1958 as plotted on this chart were calculated by linking the revised Office of Business Economics' data for 1958 in 1954 prices to the old series used a year ago.

Actual output for 1958 as a whole was about 7 percent below the potential growth trend, and even after the rapid second half recovery was still about 5 percent below in the fourth quarter.

CHART I. POTENTIAL GROSS NATIONAL PRODUCT COMPARED TO ACTUAL 1952-1957, AND ASSUMED FOR 1958

(In constant beginning-of-1958 prices -- seasonally adjusted)



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

PUBLICATIONS OF THE JOINT ECONOMIC COMMITTEE [1]

January 1947–February 1959

**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 1957.

*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.

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

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[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. Publications available only from Superintendent of Documents are denoted by a dagger (†).

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, 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 ot 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, material 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: January 1957.

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

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

Fiscal Policy Implications of the Economic Outlook and Budget Developments (Report of the Subcommittee on Fiscal Policy), House Report No. 647 (sale price 10 cents): June 1957.
Hearings, Subcommittee on Fiscal Policy, Fiscal Policy Implications of the Economic Outlook (June 3, 4, 5, 6, 7, 13, and 14, 1957) (sale price $1.00): June 1957.
†*Productivity, Prices, and Incomes* (Materials prepared for the Joint Economic Committee by the committee staff), committee print (sale price 70 cents): June 1957.
Soviet Economic Growth: A Comparison with the United States (A study prepared for the Subcommittee on Foreign Economic Policy of the Joint Economic Committee by the Legislative Reference Service of the Library of Congress), committee print (sale price 40 cents): September 1957.
1957 Historical and Descriptive Supplement to Economic Indicators (Prepared for the Joint Economic Committee by the Committee Staff and the Office of Statistical Standards, Bureau of the Budget), committee print (sale price 40 cents): September 1957.
†*Federal Expenditure Policy for Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Fiscal Policy), committee print (sale price $3.25): November 1957.
Hearings, Subcommittee on Fiscal Policy, Federal Expenditure Policy for Economic Growth and Stability (November 18–27, 1957) (sale price $2.00): January 1958.
Federal Expenditure Policies for Economic Growth and Stability (Report of the Subcommittee on Fiscal Policy), committee print (sale price 10 cents): January 1958.
†*Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Agricultural Policy), committee print (sale price $2.25): November 1957.
Hearings, Subcommittee on Agricultural Policy, Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability (December 16–20, 1957) (sale price $1.00): January 1958.
Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability (Report of the Subcommittee on Agricultural Policy), committee print (sale price 15 cents): February 1958.
†Hearings, Subcommittee on Economic Statistics, The National Economic Accounts of the United States (October 29 and 30, 1957) (sale price 75 cents): December 1957.
Hearings, Subcommittee on Economic Stabilization, Automation and Recent Trends (November 14 and 15, 1957) (sale price 30 cents): December 1957.
Automation and Technological Change (Reprint of S. Rept. 1308 of the Joint Committee on the Economic Report, January 1956) (sale price 10 cents): January 1958.
International Economic Statistics (A Memorandum prepared for the Subcommittee on Economic Statistics of the Joint Economic Committee by the Office of Statistical Standards of the Bureau of the Budget), committee print (sale price 25 cents): February 1958.
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