

EMPLOYMENT, GROWTH, AND
PRICE LEVELS

REPORT
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
PURSUANT TO
S. Con. Res. 13, 86th Congress, 1st Session
WITH
MINORITY, SUPPLEMENTAL, AND
ADDITIONAL VIEWS



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STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

(Pursuant to S. Con. Res. 13, 86th Cong., 1st sess.)

OTTO ECKSTEIN, *Technical Director*

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STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

JANUARY 26, 1960.—Ordered to be printed

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

R E P O R T

Together with
MINORITY, SUPPLEMENTAL, AND ADDITIONAL VIEWS

Introduction

A high and stable rate of employment, a high rate of growth in our national output and productive capacity, and a high degree of stability in the general level of prices can be simultaneously achieved. Our history demonstrates that this is true.

In the last 6 years, the economy has failed to realize these objectives.¹ There has been more unemployment than usual in so-called good times.² Although there has been an appreciable growth of productive capacity, we have not made full use of it, and total output has gone up at only a low rate.³ At the same time, consumer prices have gone up. Although there has been no serious and deep depression, sharp recessions have occurred. These have cost us billions of dollars of output and widespread unemployment.

This performance of the economy in recent years is the occasion for the "Study of Employment, Growth, and Price Levels" by the Joint Economic Committee, begun March 23, 1959, pursuant to Senate Concurrent Resolution 13, 86th Congress, 1st session. The committee's aims have been (1) to obtain a detailed, factual, record and objective analysis of economic developments in the postwar period, and principally since the end of the Korean war; (2) on the basis of these facts and analyses, to determine whether the economy could do better; and (3) to provide detailed recommendations for improving public policies in order to achieve a higher and more stable rate of employment of the labor force, a higher and steadier rate of growth in productive capacity and in output, and greater stability in the general level of prices.

In the course of this study the committee conducted extensive hearings on virtually every major aspect of the Nation's economic develop-

¹ See "Staff Report on Employment, Growth, and Price Levels," (hereinafter cited "Staff Report"), especially ch. 1, 3, 5, and 6.

² *Ibid.*, table 3-1, p. 275.

³ *Ibid.*, table 3-1, p. 70.

ment and economic policies. During these 9 sets of hearings the committee received testimony from over 100 expert witnesses. It will have had the benefit of over 20 special study papers prepared by outside consultants and by the committee's staff.⁴ In addition, the committee staff has prepared a comprehensive report setting forth fundamental data and technical analyses bearing on the problems with which this study is concerned.⁵

Conclusions

In general, the fundamental conclusions about our economy to which we come on the basis of the study are:

(1) It is possible with proper policies to achieve a high and sustained rate of economic growth, relatively full employment, without creeping or galloping inflation.

(2) Under the present policies followed by the administration, the Treasury, the Federal Reserve, and the Congress, we would have to choose between growth equal to our potential, on the one hand, or price level stability, on the other.⁶

(3) Our future growth will depend on what we do now. If we pursue policies which will foster growth, the economy could grow at a rate of approximately 4.5 percent a year over the next 15 years. This is in sharp contrast to the rate of 2.3 percent of the last 6 years. These are amounts large enough to spell the differences between a rapid or slow increase in our standards of living and between meeting our public responsibilities at home and abroad fully or stingingly. We do not desire growth merely for its own sake. We need it to raise our standards of living, to meet our growing public responsibilities, and to improve our military position.

In fact, if we grow at 4.5 percent per year between now and 1975 instead of at a rate of 2.5 percent, the gross national product in 1975 would be \$971 billion or \$258 billion greater than it would be at a 2.5 percent growth rate.

If we grow at 4.5 percent, the gross national product in 1975 would be \$139 billion greater in that year alone than if we grow at only 3.5 percent.

The cumulative amounts which we would gain from a growth rate of 4.5 percent per year in this period, instead of 2.5 percent or 3.5 percent, are staggering.

In the table below the calculations for gross national products at different growth rates in future years are given.

⁴ See appendix.

⁵ The chairman wishes to thank the staff, especially Otto Eekstein, the technical director, John W. Lehman, the administrative officer, and James W. Knowles, the special economic counsel, for the part they played in conducting the study and hearings and in the preparation of the special papers and the "Staff Report." In addition, my legislative assistant, Howard E. Shuman, was the chief liaison between myself and the staff throughout the study and had particular responsibility in connection with the preparation of the committee report.

⁶ Mr. Patman dissents in part. See his supplemental views, pt. 1.

TABLE 1.—*Difference in gross national product in selected years if the economy grows at 2.5 percent, 3.5 percent, or 4.5 percent*

[In billions of 1959 dollars]

Year	Gross national product in billions of 1959 dollars if economy grows at—		
	2.5 percent per year	3.5 percent per year	4.5 percent per year
1959.....	1 480	1 480	1 480
1965.....	557	590	625
1970.....	630	701	779
1975.....	713	832	971

¹ Preliminary.

(4) In order to get a rate of growth close to our potential, we must reduce the inflationary bias of the economy so that we will not have to choose between growth, on the one hand, or stable prices on the other. We must then pursue programs of growth. To grow at a high rate without inflation we must do the following:

(a) Make sure that final money demand for goods and services grows at a rate equal to the increase in the potential supply of them.

(b) Reduce the instability which still troubles the economy. There is nothing inevitable about the periodic recessions with which we have been plagued. While perfect stability will never be achieved in a dynamic economy, the frequency of recessions and their severity can be reduced.

(c) Improve the structure of the economy by reducing concentrations of market power and by increasing the mobility of resources.

(d) Increase the growth of the productive capability of the economy by investment in public and private capital, by raising the productivity of the labor force, and by improving the mobility of resources.

(5) Our inadequate economic policies have contributed a good deal to the difficulties of recent years. Since the end of the 1954 recession, public policy has been concentrated primarily on curbing inflation. This has been done on the mistaken assumption that such policy will automatically promote economic growth. The policies used assume that the inflation of recent years was caused by generally excessive money demand. Our studies find that the real sources of inflation primarily lie elsewhere.⁷ In fact, money demand fell short of the potential output of the economy during most of the period, and the general restraints on demand imposed by public policies unduly retarded the growth in output and in employment without preventing price increases.

(6) However, we also find that policies designed to promote growth will not automatically prevent inflation. While high output serves to raise productivity, a high rate of growth requires high levels of monetary demand. It is impossible to manage the increase in money demand, particularly with present policy tools, without having some

⁷ See Study Paper No. 1, "Recent Inflation in the United States," by Charles Schultze; Study Paper No. 2, "Steel and the Postwar Inflation," by Otto Eckstein and Gary Fromm; Study Paper No. 5, "Trends in the Supply and Demand of Medical Care," by Markley Roberts; and "Staff Report," ch. 5, especially pp. 130-136.

of that demand hit industries in which output is pressing upon capacity. This would result in inflationary strains. The sheer promotion of total output without regard to composition may therefore very well result in strong inflationary pressures.

(7) Concentrations of market power partially contributed to the inflation of recent years. Antitrust and similar policies designed to improve the competitiveness of the economy are important in reducing this source of inflationary strain but cannot be relied on exclusively for preventing increases in the general level of prices. Improved monetary and fiscal policies must also share in restraining inflation.

Policies

In general, the policies that would reduce instability, make our labor force more productive at full employment levels, increase our capital and use it more fully, and maintain our scientific advance, include:

(1) Monetary and fiscal policies that permit money demand to grow in line with supply.

(2) Measures to reduce the instability of output, especially the management of our defense orders in such a manner that they do not cause serious instability in the economy.

(3) Greater reliance on fiscal policy so that monetary policy will not have to carry so much of the burden to achieve any desired restraint on total money demand.⁸ This means that we should aim for higher budget surpluses during periods of prosperity and a lower level of interest rates than have been achieved in recent years.

(4) A comprehensive program for promoting the productivity of the labor force, for technical progress, and for facilitating the introduction of new technology. This program should:

(a) Provide Federal aid to education, without Federal control, particularly for those States with a large school-age population and poor financial resources.

(b) Provide a national scholarship program.

(c) Strengthen Federal programs of medical research and of vocational rehabilitation.

(d) Strengthen the private and public apprenticeship programs.

(e) Continue and increase support of scientific research, especially basic research, even in the event that the strictly military needs for advancement in science diminish.

(f) Set up national productivity centers for raising productivity in the low-wage, low-productivity industries and services in the economy.

(g) Encourage those institutions of collective bargaining that allow for the introduction of new technology and which promote an equitable sharing of the inevitable social costs of technological change.

(h) Provide unemployment benefits and retraining for workers laid off because of technological change, with benefits related to seniority.

⁸ Mr. Patman dissents in part. See his views, pt. 1.

(i) Establish special programs for the rehabilitation of depressed areas.

In addition, we should:

(5) Reorder the priorities in Federal Government expenditures to place greater emphasis on those activities which contribute to growth, such as education, research and health programs, and reduce subsidies for agriculture and business, and prune wasteful Government activities.

(6) Reform the Federal tax system to make it fairer, less obstructive to economic growth, and more productive of revenue.

(7) Revise monetary policy so that we may have a growth in the money supply in line with the growth in total output and increase the effectiveness of monetary action.

(8) Put greater reliance, to the extent possible, on selective policies which will curb excess demands in certain industries without causing general unemployment.

(9) Carry out a more vigorous and more effective antitrust policy and, first, attempt to restrain groups that possess market power by voluntary methods and, second, take whatever steps in the way of hearings and fact finding that may prove necessary

(10) Reduce tariffs gradually.

(11) Revise our farm policy, including more research to find new uses for farm products.

(12) Improve our foreign trade position.

Of these recommendations, Federal aid to education is the most important for raising the long-term rate of growth.⁹ This should be done without Federal control over the content of what is taught, the salaries or promotion of teachers, tenure, discipline, or any other feature which historically has been controlled by the local authorities. Historically, increases in productivity account for two-thirds of our total increase in output, with only one-third due to increases in the sheer amounts of labor and capital. The rise in productivity must be traced back to the improving skills of the labor force, to improvements in technology, and to better organization of production. Education plays a crucial role in each of these fields.¹⁰

The untapped potential of further investment in education remains great. For example, a recent study¹¹ found that 60 percent of students in the top quarter of ability in high school do not go to college. Many cannot afford to go. Religion, race, sex, and place of residence also keep some from attending college. Lack of motivation and the inadequacy of the high schools also are factors.

A large fraction of our labor force even today is the product of poor school systems. Expenditures per pupil vary enormously among States, and even more among school districts. Average expenditure

⁹ See "Staff Report," p. 55. For testimony on the contribution of education to long-term growth, see "Hearings on Employment, Growth, and Price Levels" (hereinafter cited "Hearings"): Testimony of witnesses Musgrave, p. 2757, Baumol, p. 2792, Gordon, p. 2955, Heller, p. 2988, and Power, p. 2384.

¹⁰ For further discussion of the role of education in economic growth, see T. W. Schultz, "Investment in Man: An Economist's View," the Social Service Review, June 1959, "Human Wealth and Economic Growth," the Humanist, 1959, No. 2; and the Staff Report, pp. 45-47, 53-56.

¹¹ Charles C. Cole, Jr., "The Identification and Encouragement of Scientific Talent," a report to the National Science Foundation, 1957.

per pupil in the top 12 States was \$429 in 1958-59, and only \$216 in the bottom 12 States. Yet the poorer States spend a greater fraction of their income on education. The large differences result both from the differences in income and from the fact that the poorer States have a larger fraction of their population of school age.

With the rising demands for skill and training from an ever more complex technology, we must strengthen our weaker school systems, and make sure that all of our people have the opportunity and the encouragement to develop their talents fully. Federal aid to education is a necessary step to accomplish this aim.

I. THE NATION'S ECONOMIC OBJECTIVES

We have identified the main objectives of public economic policy as a high and stable rate of employment, a high rate of growth in our national output and productive capacity, and a high degree of stability in the general level of prices. These objectives must be carried out within the framework of a dynamic, free, competitive, private enterprise system. This means that there should be a minimum of restraint, from both public and private sources, on the freedom of entry into competitive business, and on changes in demand and in our productive activity. It also means that there should be substantial equality in economic opportunity.¹²

We must have a very clear concept of these objectives and their importance if we are to improve public policies to achieve them.

Economic growth

Potential economic growth is the expansion of the Nation's capacity to produce the goods and services its people need and want. It is by increasing productive capacity and by then using it fully that we can improve our living standards; as individuals, by increasing our levels of consumption, and as a Nation, by increasing and improving the public services upon which our well-being depends.

An increase in our productive capacity comes from the expansion of the labor force, an increase in its quality and productivity, from increases in the stock and improvements in the efficiency of privately owned capital, from additions to public assets such as highways and public utilities, from technological advances, from higher levels of education and training, from improvements in the health and energies of the population, from reducing the deterrents to enterprise, and from a better organization of the processes of production. No single one of these is enough; indeed, they interact on each other.

The process of economic growth in our Nation is the reflection of the infinitely varied talents and demands of a vigorous, free, and enterprising people. So long as the American people possess these attributes we can obtain a high rate of economic growth.

The critical need for economic growth is found in the tasks placed upon the Nation, both foreign and domestic. At no time has any free nation been faced with a greater call upon its resources than the United States today, as the leader of the free world.

The United States must bear the major responsibility for protecting the free world from the threat of Communist aggression.¹³ This threat lies not only in the possibility of nuclear war but also in limited war waged without nuclear weapons. The rapid progress of Soviet military technology will impose increasing demands upon our own resources if we are to make sure that our defense abilities keep pace with the threats to the world peace. In addition, the United States

¹² See also "Staff Report," pp. 64-65.

¹³ See forthcoming Study Paper No. 18, "National Security and the American Economy in the 1960's," by Henry Rowen.

will have to continue to assume considerable responsibility for providing economic aid to speed up the economic development of the underdeveloped countries. The prospects at this point are very good that our Western allies will be able to increase their efforts in this regard, but this will not necessarily permit reduction of our own efforts.

Our domestic public responsibilities will also rise in a growing and increasingly prosperous economy. A rapidly growing, increasingly prosperous population, devoted to political and economic freedom, will necessarily require more of those services and goods which can only be, or are most effectively, provided by Government. We must devote both a larger amount and a larger share of our resources to educate the growing population of young people. As our living standards rise, our responsibility to reduce poverty also rises; while economic growth does reduce some poverty as incomes rise, certain groups, including those out of the labor force for reasons of age or disability, minorities who suffer from discrimination in their access to jobs, migrant farmworkers, and American Indians are bypassed by economic progress. The very large increase in our aging and aged population will create the need to devote more resources to their problems. As the population in our cities grows, basic public services must expand if living standards are not to fall. Such programs as slum clearance and the improvement and expansion of public utilities become a means to greater well-being. The clearing of our slums would also increase the tax receipts in the now blighted areas of our cities. The expansion of the civil functions of Government has been an important element of economic progress throughout the Nation's history.

A high rate of economic growth is essential if these public responsibilities are to be discharged without limiting the advance in living standards effected through individual efforts. The burden of more adequate defense efforts, of better and enlarged educational systems,¹⁴ and of other public services, requires us to increase our ability to produce all the goods and services we want. For example, had our total output since the Korean war grown at a steady rate of 3.5 percent—well below our potential—our total production today would be \$513 billion, instead of the actual level of \$479 billion in 1959. With the present Federal tax structure, Federal revenue would have been \$5 to \$6 billion more. In other words, reasonable growth since the end of the Korean war would have provided us in fiscal 1960 with a budget surplus of about this amount instead of the budget which may have at best only a slight surplus. Instead of a partisan fight over the budget, we could have used a part to retire some debt which would have eased upward pressures on interest rates, and another part to provide a larger volume of the public services, including defense, upon some of which further growth depends.

The decline in the increase of output per person is even more striking, since population continued to increase at a high rate. Where real output per person could have risen by at least 1.8 percent a year if gross national product had risen by 3.5 percent a year, it actually rose by only 0.6 percent per year from 1953 to 1959. Thus, small

¹⁴ See Study Paper No. 4, "Analysis of the Rising Costs of Public Education," by Werner Hirsch.

changes in the rate of increase of gross national product will have a proportionately larger effect on the output available per person.

High and stable rate of employment

In a free private enterprise economy, the individual's attainment of material well-being depends on his productive efforts. Basic economic justice requires that no individual who wants to and is able to work should be deprived of a job. A high and stable rate of employment is the Employment Act's explicit recognition that a free economy can meet this standard of economic justice as fully as any other form of society. It should also do so more efficiently than any other.

Although this is fundamental to a stable social and political structure, there are even more immediate considerations which make the employment objectives so important. In the first place, the economic progress upon which our well-being depends cannot be sustained if the economy persists very long in underutilizing its labor force. Payments for labor services are the major component of national income. Persistent underemployment or high rates of unemployment reduce national income below what it could be. Since private investment depends on a rising demand for final products, a slow growth in labor income will undermine the basis for rapid increases in productive capacity. This in turn will further slow the growth in income. Unless existing plants and factories are fully used, new plants will not be built at as fast a pace.

Moreover, underemployment is a failure to use our productive resources. A smaller volume of goods and services is then produced than is needed to meet actual and potential demands. Over several years we have had a relatively high rate of unemployment. This means we are not using our existing productive resources to the full. This fact is inconsistent with the frequent assertions that we cannot afford more schools, more research and development activity, higher levels of and more intensive defense programs, greater commitments to the development of impoverished and underdeveloped areas at home and abroad, or improvements in many of the other areas of public responsibility. This is not to say that those now unemployed can be immediately or easily transferred into employment directed toward meeting all of these demands. But persistent unemployment at the same time that we limit our efforts in these fields means that we are wasting the resources now at our disposal.

Stability in the general level of prices

In our economic system, changes in the prices of particular products or services are the mechanism by which resources are allocated to their most valuable uses. Price flexibility, therefore, is an essential part of a private enterprise economy. Such individual price changes can occur while there is stability in the general level of prices. If we are to have price level stability, any increases in prices which attract resources to activities for which demand is growing, must be matched by price decreases where demand is declining or growing less rapidly. If some individual prices fail to fall, however, the relative price increases necessary to move resources to their best uses will merely bring higher prices in general. The acceptance of continuing increases, even though quite modest, in the general level of prices may result in acceleration of the inflationary pressures and lead to economic instability.

Inflation is unjust. This is true whether it creeps or gallops. It redistributes income and wealth according to the ability of people to protect themselves against its effects. Because of this it benefits the strong at the expense of the weak. The avoidance of inflation, therefore, is an important goal of economic policy.¹⁵

¹⁵ See Study Paper No. 7, "The Incidence of Inflation: Or Who Gets Hurt?" by Seymour E. Harris Study Paper No. 8, "Protection Against Inflation," by H. S. Routhakker, and numerous witnesses.

II. PAST PERFORMANCE AND FUTURE POTENTIAL OF THE U.S. ECONOMY

Since the end of the Korean war, the rate of growth of output of the American economy has fallen considerably below the rate of growth of the earlier postwar years, and has fallen somewhat below the longrun historical rates. Unemployment has been higher in recent periods of prosperity than in preceding ones. At the same time, prices rose.

*The record on growth*¹⁶

TABLE 2.—Comparative rates of growth of gross national product in the United States by varying periods¹

Periods	GNP in constant 1958 dollars	GNP per person	GNP per person engaged in production	GNP per unweighted man hour
1890-1959.....	3.2	1.6	2 1.4	3 2.3
1890-1919.....	3.5	2.2	1.2	1.9
1919-59.....	2.9	1.2	2 1.6	3 2.6
1919-47.....	2.6	1.1	1.4	2.4
1947-53.....	4.6	2.5	2.6	4.1
1953-59.....	2.3	1.6	1.3	2.6

¹ Sources: All data for 1890-1919 and gross national product per person engaged in production for all years are from "Productivity Trends in the United States," a study by Dr. John Kendrick for the National Bureau of Economic Research, now in process of preparation. Data used by courtesy of the bureau. Gross national product and GNP per person, 1919-58, U.S. Department of Commerce. GNP per unweighted man-hour, Fabricant, "Basic Facts on Productivity Change," hearings, vol. II, table A. Figures are all rates of change between annual figures.

² Series ends with 1958.

³ Series ends with 1957.

⁴ 1959 dollars. It would be 2.4 in 1954 or in 1958 dollars.

Over the last 60 years, the total output of the American economy has grown at an average annual rate of 3.2 percent. Total output is best measured by gross national product in constant dollars, which is the total value of goods and services produced, adjusted for changes in prices. This growth has not occurred evenly. From 1890 to 1919, the rate was 3.5 percent, from 1919 to the present, 2.9 percent. The great depression held back the growth of output, although World War II saw enormous gains as we used the great excess capacity that existed at the end of the thirties.

After the inevitable decline of total output at the end of World War II, growth resumed in 1947, was interrupted by the recession of 1949, and then continued at a very high rate during the Korean war. For the period, 1947-53, the average rate of growth was 4.6 percent. Since then, growth has been slow, at 2.3 percent from 1953 to 1959. Even when we allow for the expected further expansion in 1960, the average rate of growth of output over the previous and the present business cycle will be below the longrun historical average. It will be even further below the growth of our potential.

¹⁶ See also table 5, "U.S. Average Annual Growth Rates," p. 18.

Movements in total output per capita show a similar pattern. However, because population growth continues at a more steady rate than output, a decline in the growth of total output has a magnified effect on the growth of output per person. Thus its increase, which had been 2.5 percent from 1947 to 1953, was only 0.6 percent in the last 6 years.

Total output per person engaged in production has increased in a somewhat more even pattern. This is because the total number of people working rises less in periods of slow growth.

Gross national product per unweighted man-hour, a crude measure of productivity, has risen at a longrun average rate of 2.3 percent a year. Since 1919, the average has been 2.6 percent. In the early postwar period, when the country's capital stock was being modernized after a long period of deferral, and when demand was very strong, this figure rose at a rate of 4.1 percent. From 1953 to 1957, the most recent period for which comparable data are available, it has returned to the average rate since 1919, an annual gain of 2.6 percent.

The recent growth record of the American economy contrasts with that of most of the advanced economies of the world. As table 2 shows, the rate of increase of output was much larger elsewhere. In the OEEC countries of Europe as a whole, gross national product rose at a rate of 4.6 percent for the period 1950-57, the most recent dates for which comparable figures are available. Industrial production, which rose at a rate of 4.4 percent in this country from 1950-57, rose at 6.2 percent in OEEC countries. Economic growth in the Soviet Union has been at an even higher rate, with total output growing at approximately 7 percent.¹⁷

The slow rate of growth of the last 6 years is a serious matter. While some slowdown from the very high rates of the early fifties was to be expected, the severity of the slowdown was unnecessary, and much of the blame rests with the Federal policies that were pursued. First, Federal policies helped to bring about the two recessions, which were the main causes of the retarded growth. Sudden changes in defense orders clearly helped to trigger both of the downturns—as they also did in the downturn of 1949—because orders were cut clumsily and without offsetting fiscal measures which would have let civilian private and public spending grow.¹⁸

Second, when the signs of recession became clear, we did not take sufficiently prompt action to halt and reverse the declines.

TABLE 3.—*United States of America compared with other advanced countries—annual average growth rates*

	United States of America ¹	Canada	All member countries OEEC	France	Germany	Italy	United Kingdom	Sweden
Industrial production: 1950-57	4.4	5.4	6.2	6.6	10.7	8.5	3.0	3.3
Real GNP at market price (1954 prices and exchange rates): 1950-57.....	3.6	4.4	4.6	4.7	8.0	5.8	2.4	3.3

¹ From FRB Index, revised, and "U.S. Income and Output," U.S. Department of Commerce

Sources: Industrial production and GNP figures from OEEC statistical bulletins, except for United States of America figures.

¹⁷ See testimony of Allen W. Dulles, hearings on "Comparisons of the United States and Soviet Economies," Subcommittee on Economic Statistics, Joint Economic Committee, Nov. 13, 1959, p. 6.

¹⁸ See "Staff Report," ch. 8.

Third, monetary policy, which became progressively more restrictive over the period, kept the supply of credit too tight. This had its main effect on residential construction. In much of the period the industry was capable of building more houses than the supply of credit allowed. It also had some effect on investment spending by small business,¹⁹ State and local governments, public utilities, and private business generally, and through its effects on personal incomes, on consumption as well.

The overall effect of these policies was to let total demand grow at a lower rate than the rate at which capacity was expanding. From 1953 to 1959, industrial capacity grew by approximately 30 percent, but industrial output by only 15 percent. Thus production remained below our potential output in most of the period.

Employment

The general level of unemployment now appears to be higher both in good periods and in recession periods than it has been previously in the postwar years.

In the prosperous periods of 1956 and 1957, average unemployment was 4.2 and 4.3 percent respectively. This compares with figures of 3.1 and 2.9 percent in 1952 and 1953, and with 3.9 and 3.8 percent in 1947 and in 1948. The figure for 1959 was 5.5 percent. Thus, in roughly comparable good periods unemployment levels are now higher.

In the recession year of 1958, average unemployment was 6.8 percent. This compares with 5.6 percent in 1954 and 5.9 percent in 1949. While there were individual months in the 1949 recession when the specific unemployment figure was as high or higher than in the most recent one, there is no question but that we are now experiencing a generally higher level of unemployment in both good and bad periods than at any time since World War II. (See chart, p. 14.)

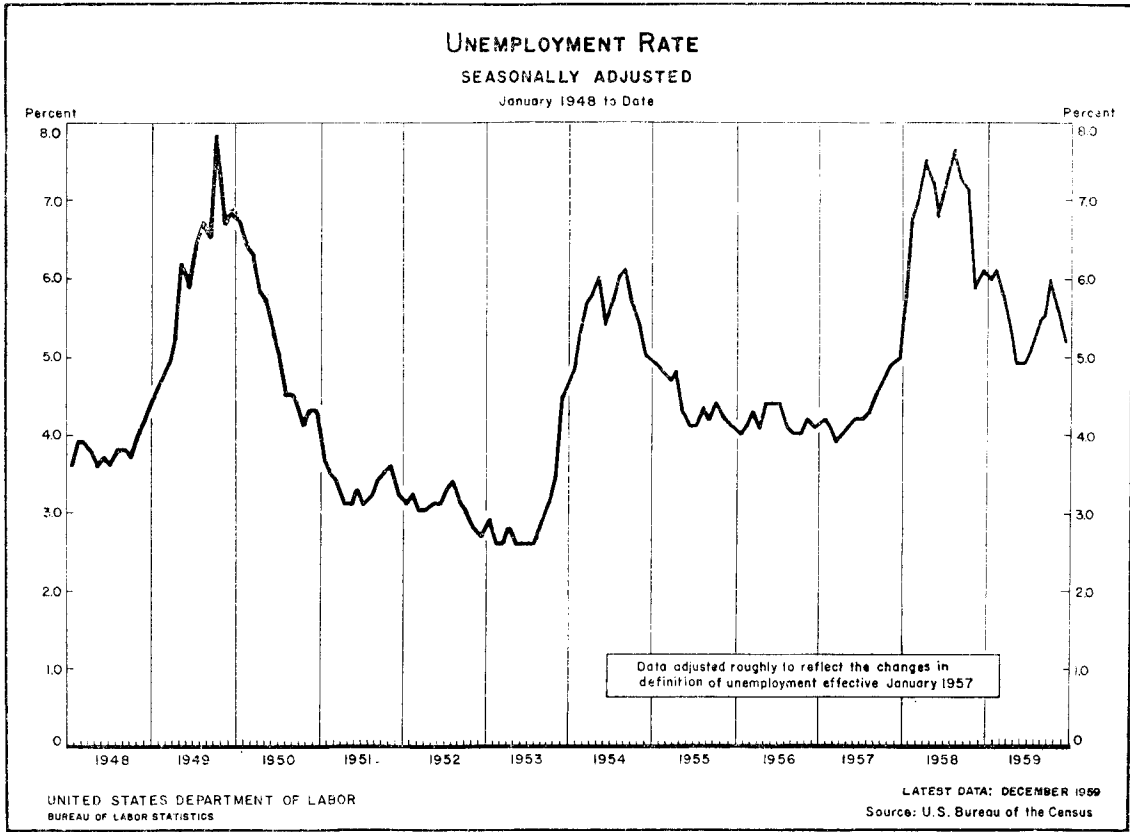
With these changes in employment conditions, there has been a trend toward a lower rate of increase in productivity (see table 2 above). To a substantial extent this can be traced to the changes in the use of the civilian labor force. A pronounced shift has occurred from employment of production workers in manufacturing to employment in services,²⁰ i.e., from relatively high productivity to lower productivity uses.

To a significant extent, this weakening of the employment situation is another reflection of public policies pursued since 1953. The slow growth in total demand after 1955 served to reduce employment demands in manufacturing industries and to encourage the shift of labor from these industries to services. Had more expansionary fiscal and monetary policies been followed in 1956 and 1957, the overall unemployment rate would have been lower and productivity would have been greater.²¹

¹⁹ Mr. Patman: Not "some" effects on small business but "disastrous" effects on small business. See his views, part 1.

²⁰ For a discussion see Study Paper No. 6, "The Extent and Nature of Frictional Unemployment," by the Bureau of Labor Statistics, pp. 60-67, and "Staff Report," pp. 74-94. Also see forthcoming Study Paper No. 23, "Unemployment in Surplus Labor Market Areas," by the Bureau of Labor Statistics.

²¹ For a discussion of productivity movements, see Study Paper No. 15, "Profits, Profit Markups, and Productivity: An Examination of Corporate Behavior Since 1947," by Edwin Kuh.



The recent behavior of prices

Over the period 1953 to 1959, consumer prices rose at an annual rate of 1.4 percent, wholesale prices at 1.4 percent, and the gross national product deflator at 2.2 percent. These increases were largely concentrated in the period 1955 to 1957. These movements of the indexes, of course, reflect diverse movements of individual prices. The decline in agricultural prices served as a partial offset to rising industrial prices over the entire period.

In order to interpret these movements of the price indexes, their limitations must be kept in mind. The failure of the indexes to reflect changes in quality and the methods of introducing new products give some upward bias to these indexes. These biases are not sufficient to explain away all of the increase in the index. But it should be stressed that small changes in the indexes, on the order of 1 percent a year, fall within the margin of statistical error.²²

Three fundamental factors account for the inflation of recent years:²³

1. Inflation has been a byproduct of instability of output. Business investment has come in rapid surges. This has led to excess demands and rising prices in the capital goods industries.²⁴ Consumer investment in durable goods has also come in sudden bursts, particularly in the first year of recovery after recession. Besides directly leading to price increases, these surges led to very rapid increases in profits which formed the basis for relatively large long-term wage settlements. Business was also encouraged to incur large fixed capital, research, and administrative costs by the sharp upswing of 1955. When total demand failed to grow in accordance with the optimistic expectations established in 1955, business found itself with a higher level of overhead costs which served to raise unit costs.

2. Concentrations of market power have also contributed to inflation. The history of price increases in steel, the ability of many industries to pass on higher overhead costs even in the absence of excess demands, and the failure of prices to fall in the recession periods, are three clear instances of the influence of market power on the price level.

3. The prices of services, which loom particularly large among consumer prices, rose steadily through the postwar period. The rise in service prices is due partly to the fact that these sectors have lower productivity increases than the average of the economy. In addition, in some areas, particularly in the case of medical care, the imbalance between demand and supply has continued to worsen.

The policies pursued by the Federal Government were on the whole poorly suited to deal effectively with the specific kinds of inflationary pressures in recent years. These policies were of a type that is effective in curbing an inflation stemming from generally excessive demand. This did not work. The actual increase in demand was low. The principal inflationary forces were the strong shifts in demand among industries, the concentration of market power, and the low productivity and the inadequate supply of services. The attempt to restrain

²² For discussion of upward bias in the price indexes, see especially the testimony of Richard Ruggles, 1Hearings, pp. 2270-2272, and that of numerous other witnesses.

²³ See Study Paper No. 1, "Recent Inflation in the United States," by Charles Schultze; Study Paper No. 2, "Steel and the Postwar Inflation," by Otto Eckstein and Gary Fromm; Study Paper No. 5, "Trends in the Supply and Demand of Medical Care," by Markley Roberts; forthcoming Study Paper No. 17, "Prices and Costs in Manufacturing Industries," by Charles L. Schultze and Joseph L. Tryon; and "Staff Report," ch. 5, especially pp. 130-136.

²⁴ See Study Paper No. 3, "An Analysis of the Inflation in Machinery Prices," by Thomas A. Wilson.

total demand brought unemployment and a low growth of total output, while it did not stop the upward movement of prices over the period.

Our growth potential

Our economy can grow at a rate as high as 4.5 percent per year without changing our economic system in any fundamental way. Even if the economy performs no better than in the past, except that we avoid stumbling into a serious depression similar to the 1930's, the rate of growth of the economy may be only as low as 3.5 percent a year. Thus there is a considerable range of potential growth rates even within a range of assumptions which exclude a serious and prolonged depression on the one hand and a forced draft economy on the other. Within this range, the rate of growth is subject to our own control through public and private economic policies.

This conclusion, arrived at by the committee staff in its report to the committee, presents a range of growth rates in which the lowest rate is higher than the average rate of increase in real output of about 3 percent per year, which was achieved over the past 50 years. Why is it that the future possibilities are significantly more optimistic than actual past achievements?

A large number of factors were considered in the staff analysis²⁵ of our past growth, including: the rate and character of scientific progress; the proportion of output which is plowed back into capital assets; the average age of our capital assets and, hence, the extent to which the current capital stock embodies the most up-to-date technology; rising levels of educational attainment and health; the ratio of labor force to the population; changes in average number of hours worked per year per person employed; changes in the average degree of skill exhibited in managing productive activities; the degree of stimulation of advancement in efficiency from competition at home and abroad; a wide variety of considerations concerning the social and political environment in which the economy operates; and the availability of natural resources and their average quality. Some of these factors cannot be measured directly at the present time.

The staff analysis takes explicit quantitative account of available man-hours (number of persons available for work multiplied by average hours of work per year), the ratio of the stock of capital to labor, and time, as a proxy for changes in managerial skill, technological progress, improvements in the health and education of labor force, etc., which increase our productive capacity each year even though they cannot be directly measured. Allowance was also made for the fact that an increase in the average age of the stock of capital tends to reduce potential output and a fall in the average age tends to increase potential output because the average age of the capital stock is an indirect measure of the degree to which the capital stock existing at any particular time incorporates the latest available technology. The time trend accounts for between one-half and two-thirds of the annual increase in the economy's capacity or potential output.

If we look at the future potentials developed by the staff (reproduced below in table 4), we find three main reasons for the fact that

²⁵ See the forthcoming Study Paper No. 20 "Potential Economic Growth in the United States," by James W. Knowles.

the growth rate in the future can be significantly higher than the economy has realized in the past:

1. The annual average rate of growth in the total labor force over the next 15 years is likely to range between 1.5 percent and 1.9 percent per year as compared to an average over the previous 50 years of about 1.4 percent. The growth of the population of working age, therefore, will cause a somewhat higher rate of growth in the future than the past 50-year average.

2. The stock of private plant and equipment in constant prices is assumed to grow between 2.2 percent and 3.2 percent per year over the next 15 years compared to an average of about 2.2 percent per year over the preceding half century. It is notable that the average rate of increase over the past 50 years has been held down by the fact that between 1929 and 1939 there was very little growth in the stock of capital due to the low levels of investment during this decade.

3. The average age of capital stock is assumed to remain constant or decline slightly over the next 15 years, whereas the average age of the capital stock actually increased over the preceding 50 years, reaching a peak during World War II and declining since that time. The average rate of increase over the entire 50-year period was about one half of 1 percent a year, but over most of the period (1909-45) the rate of increase was slightly over 1 percent per year. Since an increase in the average age of the capital stock tends to retard the rate of growth, and a decline in the average age tends to stimulate the rate of growth, this factor will be a modest stimulant to the economy over the next 15 years, whereas it has been a restrictive influence over most of the preceding half century.

TABLE 4.—Selected indicators of economic growth potentials, 1959-75 ¹

[Percent increase per year] ²

Indicator	Projected potential growth rates, 1959-75		
	A	B	C
Total labor force.....	1.9	1.7	1.5
Total employment, including the Armed Forces.....	³ 1.9	⁴ 1.7	⁵ 1.5
Average annual hours of work.....	-4	-5	-6
Total man-hours.....	1.6	1.2	.9
Stock of private plant and equipment in constant prices.....	3.2	2.7	2.2
Average age of capital stock.....	-2	-1	0
Gross national product in constant prices:			
From 1959, actual (preliminary estimate).....	5.2	4.7	4.2
From 1959 potential.....	4.6	4.0	3.5

¹ Some rates of change in this table vary slightly from those given in the similar table 4-1, p. 101 of the "Staff Report on Employment Growth and Price Levels" because of the incorporation of later data and refinements of analysis not then available.

² Computed by compound interest formula, using initial and terminal years.

³ Assumes 97 percent of the labor force employed in 1975.

⁴ Assumes 96 percent of the labor force employed in 1975.

⁵ Assumes 95 percent of the labor force employed in 1975.

These factors mean that we can have a rate of growth at least as good, if not slightly better, than in the past so long as deep or prolonged depressions are avoided, such as interrupted our growth in the past 50 years, namely between 1929 and 1939. On the other hand, if we take full advantage of the opportunities for growth provided by an economy which operates with only minor interruptions to its progress and adopt policies to mend this process of growth without

producing inflation, then our economy would tend to grow at a significantly higher rate than in the past. Whether we attain these higher rates will depend on whether public and private economic policies are adopted which facilitate growth, and whether we avoid deep and prolonged interruptions to expansion.

NOTE.—The figures for growth rates in the attached table are based on the real gross national product expressed in 1954 dollars. This fact explains the minor difference between the 1953–59 rate of 2.3 in table 2, which is based on 1959 dollars, and the rate of 2.4 for this period found in this table.

III. FISCAL POLICY

The performance of the economy in recent years was significantly affected by the kinds of public policies which were carried out. This is not to say that these policies are the only factors which determine the essential character of our economy. The vigor and venturesomeness of the people of this country, their highly varied cultural heritage, their longstanding preferences about what is the proper economic, political, and social framework for our activities, are more important, over the long run, in determining what kind of an economy we have. But public policies exert strong influences which can and do affect the strength of the economy and the course of its development.

Of all the major areas of public policies, the greatest opportunities for improvement lie in fiscal policy. The Federal Government is far and away the largest economic unit in the Nation. It handles over one-sixth of the gross national product. It has a very large effect on economic activity, on economic stability, and on growth.

In the postwar period we have not used the full possibilities of fiscal policy to achieve the Employment Act's objectives. This has been particularly true since the end of the Korean war. Federal fiscal policy has been neglected. Indeed, Federal fiscal actions have been a major cause of economic instability. This, in turn, has been a major source of the low growth, of the upward trend in unemployment, and of the rising price level. In addition, the decrease in use of fiscal policy has imposed too great a burden on monetary policy.²⁶

The Federal Government should use fiscal policy more fully than it has in recent years.

Excessive reliance on monetary policy is unsatisfactory because it acts selectively on a relatively few sections of the economy and because of inevitable delays before its effects are felt. Fiscal policy, while more difficult to use, has prompter and larger effects.²⁷

Greater reliance on fiscal policy calls for two things. First, there should be larger budget surpluses than have been realized in recovery and prosperity. This is necessary to achieve the desired amount of restraint on total demand in these periods.²⁸ Second, there should be more prompt budget deficits when recession conditions are developing. If this course is followed, less reliance will have to be placed on monetary restraints against inflation and on monetary expansion to head off or moderate a recession. Interest rates in general will be lower than they would otherwise be.²⁹ Moreover, while interest rates would still be flexible, they would fluctuate within a much more limited range. Greater reliance on fiscal policy, therefore, will not only be more effective in promoting stability in the rate of employment and output and in the price level, but will also contribute to greater stability in the Nation's financial markets.

²⁶ Hearings, Chairman Martin, pp. 1763-1764.

²⁷ Hearings, Secretary Anderson, pp. 1719-1720.

²⁸ Hearings, testimony of Walter Heller, pp. 2994-2996.

²⁹ *Ibid.*

In the long run, a more rapid expansion of the Nation's productive capacity will probably require a higher rate of national saving. The surest way to attain this is to have larger budget surpluses during periods when there is a high level of employment and output.³⁰

A budget surplus in such periods reduces the purchasing power of the private economy. To the extent that these surpluses reduce consumption, they increase the total amount of resources available for investment. Of course, this process will only operate successfully if other policies, particularly monetary, keep the total money demand high. Otherwise the private investment will not take place. Budget surpluses in these periods permit debt retirement. This releases funds for private investment and would lower interest rates.

Since the end of the Korean war, the total of Federal surpluses in prosperous periods has represented a much smaller proportion of the gross national product than in the period prior to the Korean war.^{30a} Federal fiscal activities, therefore, have made a smaller contribution to total national saving in recent years than in the earlier postwar period.^{30b}

Changes in defense orders and purchases have been an important cause of economic instability in the postwar period. These changes should be based upon the Nation's longrun defense requirements, and not upon considerations of the debt limit or other narrow budgetary concerns. Changes in defense demands should be treated as signals that offsetting changes in taxes or other expenditures may have to be made if recessionary or inflationary strains are to be avoided.^{30c}

The materials presented in the committee's hearings and in the staff report on "Employment, Growth, and Price Levels,"³¹ and in the committee's hearings on the President's Economic Reports, show that significant changes in the volume of defense orders have a quick and large effect on activity in the durable goods manufacturing industries, on inventories, and on plant and equipment outlays. These in turn affect activity throughout the economy. Since World War II, including the recession of 1949, changes in defense orders have been one of the major causes of economic instability. In 1953-54, for example, the sharp and large cutback in orders was the principal cause of the recession of those years. In 1956, the large increase in these orders came on top of rising civil demands for durable goods and contributed to the inflationary pressures originating in that sector. Again, the cutback in the rate of defense orders in 1957, coming at a time when economic activity was tending down in many sectors, added substantially to the sharp and deep recession which developed in the latter part of that year and in early 1958.

We are not saying that defense orders must be maintained when the opportunity develops for their reduction, nor that they should not be increased when the Nation's military requirements so demand. Both reductions and increases, however, can be managed much more skillfully than they have been in the past to reduce their effect on economic stability. Reduction must be offset by public actions, particularly tax cuts. The economy as a whole could then adjust to lower levels of defense orders without a recession. Likewise, sharp increases in defense orders, in periods of recovery or prosperity, would increase inflationary pressures in durable goods manufacturing and in

³⁰ See "Staff Report," p. 270.

^{30a} "Staff Report," table 8-13, p. 307

^{30b} *Ibid.*, table 8-17, p. 311.

^{30c} *Ibid.*, pp. 215, 230, 240, 244, 254, and 267.

plant and equipment. Other demands in these sectors may then have to be cut back if capacity is being fully used.

The Nation's defense must command top priority. The volume and character of necessary defense demands cannot be adjusted to avoid inflationary or recessionary strains. But if such strains will result from changes in our defense programs, they can be offset or moderated by other fiscal actions.

Still less should our defense be tailored to a concern over general budget restraints or the debt ceiling. The desire by the administration to avoid having to ask for an increase in the debt limit apparently brought the cut in defense orders in 1957. The result was not only to increase and speed recession forces but the recession brought a budget deficit which required a much more substantial increase in the debt limit than would otherwise have been needed.

*The principal weapon which should be used to prevent recession trends from gaining momentum and to promote recovery from recession is a reduction in tax rates. Such countercyclical tax cuts should be enacted on a temporary basis, and should automatically end when the forces of recovery become strong.*³¹

Since no two recessions are likely to be the same in all important respects, no single prescription for tax reduction is likely to fit all cases. In general, however, the aim should be to reduce individual income taxes, because they have the widest and quickest impact on the economy. Moreover, provision should be made for reversing tax reductions on a timely basis as recovery proceeds, in order to maintain the Federal Government's revenue base in the long run.

In addition to vigorous use of discretionary tax changes, the automatic fiscal stabilizers should be strengthened. In particular, the unemployment insurance system should be liberalized to increase the response of fiscal policy to changes in employment.

The present Federal fiscal structure contains elements which respond automatically to offset changes in the national income. Tax liabilities react to changes in economic activity. They moderate fluctuations in private incomes and expenditures. On the expenditure side, certain payments go up and down automatically with changes in economic conditions. Unemployment compensation benefits rise with increases in unemployment and fall off as unemployment drops. Public assistance payments and old-age and survivors insurance benefits do the same.

Automatic stabilizers do not reverse recessions. They slow down and reduce the size of the decline but they provide no upward stimulus of their own. However, even if the Government is more willing to act than in the recent past, there will always be some delay. Therefore the automatic fiscal stabilizers should be strengthened wherever possible as a first line of defense against recessions.

Improvements can be made in the Federal tax system. Tax reform would bring back into the income tax base certain items of income, for example, capital gains, which are highly sensitive to changes in economic activity. In addition, increasing the progression at the lower end of the income scale would improve the response of the tax system to economic ups and downs. Splitting the first bracket in the individual income tax would be a major gain in this respect.

³¹ See Hearings, testimony of Neil Jacoby, p. 67.

Experience in the 1957-58 recession showed that the unemployment compensation system is a major area in which improvements can be made. The emergency action by the Federal Government in supplementing State employment benefits when these were exhausted was certainly the most heartening feature of Federal fiscal policy in the last recession.

The unemployment insurance system should be strengthened. Both the amount of benefits and their duration should be increased. Of course there is an upper limit on how much can be done without hurting incentives, even in good times. At present, however, this limit has not been reached.

Improvements in the unemployment compensation system should not wait for the next recession. Work should begin on this program now.

*As we place more emphasis on fiscal policy and larger budget surpluses to restrain total money demand, reform of the Federal tax structure, particularly of the income and estate and gift taxes, becomes more urgent.*³²

If the "mix" of monetary and fiscal policy is to be changed, as we propose, we must have the fairest possible tax system. The weaknesses of the present Federal tax system, particularly of the income and estate and gift taxes, are legion. They have been set out in hearings and studies by the Joint Economic Committee and most recently by the House Committee on Ways and Means. Both the individual and corporate tax systems are full of preferential provisions which allow some taxpayers, because of the source of their income or the use they make of it, to pay lower taxes than others with equal incomes. The result is that many taxpayers, particularly individuals, pay taxes on only a fraction of the income they actually receive. This requires others to pay higher taxes than would otherwise be needed. Moreover, since not all taxpayers can take advantage of the preferential provisions, these high tax rates have a very uneven impact.

These discriminations cannot be concealed. Widespread knowledge of them has undermined confidence in the fairness of the tax system. As greater reliance is placed on fiscal policy it is particularly urgent that these injustices should be done away with. Those with equal income should pay equal taxes without regard to how the income is obtained or what use is made of it.

In addition, tax loopholes distort the use of resources. When taxes are lower on some sources or uses of income than on others, taxpayers spend or invest for tax reasons rather than because of sound business judgments or the dictates of the market. Resources then flow into areas where they get the best tax treatment rather than where they are most efficient or most needed. This means that our economy is less efficient than it could be. Tax preferences, therefore, limit the growth in our real output and in our productive capacity.

We cannot list all of the necessary reforms in the Federal tax structure. Among the most urgent, however, are the following:³³

1. *Repeal of the dividends-received credit and exclusion.*—These provisions primarily benefit a small minority of the largest stockholders. They do little, if anything at all, to encourage corporations to increase external equity financing, rather than debt or internal financing.

³² See Hearings, testimony of Walter Heller, pp. 2995 ff.

³³ *Ibid.*, pp. 3003-3004.

Congressmen Patman and Boggs dissent in part from some of these specific recommendations. See Mr. Patman's views, pt. 6.

Repeal of these provisions would add \$400 million to \$500 million to Federal revenues.

2. *Provide for the withholding on interest and dividend payments.*—At present, between \$4 billion and \$5 billion of dividends and interest received by individuals which should be reported on their tax returns escapes the individual income tax through deliberate evasion, forgetfulness, or ignorance of the law's requirements. Withholding at the source on dividend and interest payments at the same rate as for wages and salaries is entirely practicable, would involve extremely small costs of compliance by withholding agents, and would increase Federal revenues by about \$800 million. The argument that this would involve overwithholding on widows and orphans, upon which proposals for dividend and interest withholding have foundered in the past, is without merit. Tax has been withheld on wages and salaries for years. This withholding system has involved greater overwithholding on wage and salary earners than would occur in the case of dividend and interest withholding. Yet those who oppose the latter on the grounds that it would be unfair to dividend and interest recipients seldom mention the far greater overwithholding burdens which are borne by those who receive wages and salaries.

3. *Rigorously limit employee expense accounts.*—Business expense accounts have been carried to such extremes that as much as \$5 billion to \$10 billion of personal income now escapes taxation. Moreover, these practices feed on themselves by setting up pressures for more generous allowances among competing firms. These practices are among the most glaring injustices now tolerated by the law. Limiting deductions to those expenses without which the basic business of the employer could not be carried out would add as much as \$800 million to Federal receipts.

4. *Limit the types of income to which capital gains treatment is given to true capital gains.*—Under present law, capital gains treatment, with a maximum tax rate of 25 percent, is given in many circumstances, where income involves no sale or exchange of capital assets. The low capital gains rate has been widely used as a tax relief device. Examples where the capital gain rate is given where no true capital gain is involved include: coal royalties, the sale of cut timber, and the gains from the sale by corporations of depreciable assets. Perhaps the present provisions are not the best way to treat legitimate capital gains. But the use of these provisions where no capital asset is involved and where no sale or exchange occurs is clearly unjustified. Eliminating these cases would add about \$600 million to Federal revenues from the corporation income tax alone.

5. *Progressively reduce the percentage depletion rates allowed on oil and gas.*—Percentage depletion permits the taxpayer to recover his investment in a property many times over. The cumulative total of these deductions is limited by the income from the property and not by the taxpayer's investment in it. These provisions are grossly unjust. In addition, they encourage a wasteful rate of investment in these properties and discourage sound conservation practices. The total elimination of percentage depletion for oil and gas alone, i.e., permitting only actual investment to be recovered for tax purposes, would add between \$1 billion and \$1.2 billion in Federal receipts. A more limited approach which would retain the present 27½ percent depletion rate for small oil and gas operators and reduce the rate to

15 percent for the giant firms in this industry would add about \$400 million to Federal tax receipts.

6. *Improve the enforcement of the income tax laws.*—It is estimated that as much as \$25 billion of taxable income is not reported on individual income tax returns. The revenue gain which could come from more vigorous enforcement efforts is, therefore, substantial. It has been shown by Internal Revenue Service studies that each additional dollar applied to enforcement brings in receipts many times greater. Even a modest investment in expanding and improving enforcement techniques would yield an additional \$1 billion in Federal revenues.

7. *Eliminate the numerous preferential provisions in the estate and gift taxes.*—At present, these taxes fail to serve either their social purpose of preventing great accumulations and concentrations of wealth or of producing any substantial amounts of revenue. Revision of the marital deduction, closing the avoidance device of life estates, and possibly integrating the two taxes into a single wealth transfer tax with a single system of rates, deductions, and exemptions would add at least an additional \$1 billion to Federal tax receipts annually.

These revisions altogether would bring in an additional \$4 billion to \$5 billion in tax income annually. Numerous other revisions can and should be made to improve the fairness and the revenue potential of the Federal tax system and to reduce its bad effects on economic growth. The additional revenues which would result from these reforms could be used in part to reduce the high marginal income tax rates, particularly those above, say, 65 percent in the individual income tax, to reduce the Federal debt and thereby ease pressure in the money markets, and to finance a modest amount of expenditures aimed at encouraging the Nation's economic growth.

We should reorder the priorities in the Federal budget. Greater emphasis should be placed on those Government programs which are essential to the Nation's and the free world's defense, to promote the well-being of our people, and to contribute to a higher rate of economic growth. We should reduce those outlays which support the inefficient use of the Nation's resources.

To improve Federal expenditure policy, we should put a high priority on:

- (1) better provision for defense, especially for missiles and for combat troops;
- (2) an improved foreign aid program;
- (3) Federal aid to education;
- (4) continued support for research and development in line with the growing demands and opportunities that science offers;
- (5) An enlarged and improved program of medical care and research and especially for hospitals and medical schools;
- (6) a sound program of natural resource conservation and development; and
- (7) programs for restoring and improving the economic health of areas which have been bypassed by economic progress or which are the victims of the adjustments of a dynamic economy.

Until a major change occurs in the relationships among the world's great powers, and a real and secure peace comes about, the United States must be prepared to commit whatever proportion of its vast resources that may be necessary to our defense and to assist in the defense of the free world and in the economic development of the less

developed nations. The progress of Soviet military technology increases our peril. It requires us to speed our own advances if the present delicate balance of military strength which keeps the nuclear peace is not to be lost. If we cannot thereby deter nuclear war, we must be in a position to strike back. For this purpose, we need better missiles and space programs.

In addition, we must improve our ability to fight and to win limited wars without nuclear weapons. All-out nuclear warfare is not the sole threat and perhaps not the major threat to world peace. The piecemeal weakening of the free world through limited aggressive wars is still a threat. In partnership with our allies we must be ready, if necessary, to fight limited battles wherever they may arise, to protect the free world. As the destructive power of nuclear weapons becomes greater, the possible use of them to win limited military objectives becomes less. Combat strength for limited war is, therefore, essential to our safety. Finally, we must provide military aid to our allies so that they can resist external aggression and internal subversion.

It does not follow that any great increase in total spending for defense will be needed. Parts of our defense program are wasteful and inefficient. This involves the inefficient use of both men and materials. It is also true of procurement practices and the building up and disposal of huge amounts of surplus property. The stockpiling of obsolete and redundant materials and supplies, the unnecessary duplication of facilities and lines of supply now available in the private sectors of the economy, the failure to centralize purchasing, and numerous other inefficient procurement practices remain. The savings in procurement and management could be the major means of financing more missiles and combat troops.

During its study, the committee was told again and again that we must improve our education—in both quality and quantity—that we must increase our efforts in research and development, both basic and applied.³⁴ This is necessary for a higher rate of economic growth over the long run. Our industrial technology is more complex and makes greater demands on the labor force. To develop our people's talents to the full, and to increase labor productivity at a rate which can cope with the new technology, the standards and amount of education will have to rise rapidly.

Funds for research and development, for which the Federal Government now provides at least half, will also rise if a higher rate of economic growth is to come about. The productivity of many of these activities is very great. The civilian byproducts of applied military research alone provide a dramatic catalog of the high return in such activity.

Funds for improving the quality and quantity of medical care will also have to increase substantially in the future. Most of these will come from private sources but the expenses of the Federal, State, and local governments for medical care will increase. This is true because the major improvements in medical services depend on research. Medical research has long since passed from the Bunsen burner stage to extremely complicated and costly techniques, the financing of which very often exceeds private means.

³⁴ See, for example, Hearings, testimony of Sumner Slichter, p. 4.

We wish to warn here that while medical and other research is very costly and therefore requires large sums, it does not follow that such research should be done by committees or through "gang research." The administrative arrangements through which such funds are channeled, whether they be private or Government agencies, should not interfere with the job of research which still remains largely an individual one.

Programs for the development of and the conservation of our natural resources are of great importance. Such programs with respect to the development of our natural resources must bear the most critical analysis in terms of their costs and of their benefits. There are enough justified claims upon our resources that it is folly to press those which are inefficient and which will not pay for themselves.

There are numerous depressed economic areas in this country which are withering on the vine. Even at the peak of prosperity they suffer from depressed conditions. As there are now huge public investments in these areas, in terms of the communities, their public utilities and their human resources, assistance in the form of some public works, repayable loans, as well as technical assistance and retraining could revive many of them. It is wasteful to allow these areas and resources to remain unused and undeveloped.

The specific elements of a Federal program for area assistance should include: (a) technical assistance to the areas in planning a redevelopment program with reasonable chances for success; (b) financial assistance to chronically depressed areas for community facilities necessary to attract new industry; (c) long-term loans to new industries locating in the area; and (d) retraining allowances for workers who can thus be qualified for reemployment.

Poverty in the United States, however, is not merely a matter of depressed areas. It exists in prosperous cities, and throughout the agricultural regions of the Nation, particularly among migrant farmworkers. The programs necessary to raise low incomes therefore will have to be flexible enough to meet a variety of situations. Slum clearance and urban renewal are important parts of such a program. More important is raising educational standards since this is the surest way to increase productivity and eliminate the basic source of poverty. Public assistance must continue to play a large role.

Numerous other public services should also be expected to increase as the Nation grows. The blight in the centers of our cities is not only bad of itself, but it draws off resources for police, penal and mental institutions, and wastes the human resources found there, all of which slows down our growth. Additional public services in the fields of public utilities and public works, such as roads and highways, public medical facilities, schools, and libraries, will also be needed. The failure to meet these demands will limit the increase in productivity and the Nation's growth.

In citing these increasing demands for public services we are not unmindful of the fact that they must be paid for. In part they will pay for themselves. A higher rate of economic growth without inflation would also help to pay for them. If gross national product in constant prices had grown without interruption at a rate of 3.5 percent since 1953, the total output this year would be some \$34 billion more than in fact will be realized. Federal revenues this year would be some \$5 billion to \$6 billion more than in fact they will be. These

additional revenues would have made possible modest beginnings in programs which increase productive capacity and productivity while at the same time permitting both some reduction in the national debt and even reduction in some tax rates.

Economic growth in itself, therefore, is a major source for financing improvements and expansion in necessary Federal programs without increasing tax rates.

In addition, we can finance a large part of these public programs by eliminating or reducing subsidies and other resource-wasting Government programs. Very substantial savings can be realized in this way. Finally, the tax reforms suggested above would increase revenues while making the tax system fairer and more just.

We stress that putting greater emphasis on these programs is not a plea for big spending or deficit financing. On the contrary, these programs can and should occur in the framework of a much tighter fiscal policy than there has been during the past several years. They are perfectly consistent with our recommendations that there should be larger budget surpluses during periods of high output and employment.

These basic improvements in fiscal policy require that we halt the erosion of the Federal budget and restore to it meaningful accounting integrity.

In the past several years, gimmicks and financing outside the budget have been used to mask or obscure the effects and costs of a number of programs. The effect of Government spending on the economy is also obscured and understated. In terms of the number of dollars involved, the highway trust fund is certainly the most important example. Neither the expenditures nor the receipts under the Federal highway program are shown in the conventional budget. Why this program should be separated from the budget while most other Federal public works programs are shown is difficult to explain. Its purpose appears to be to present the illusion of a balanced budget and of a lower level of Government outlays and receipts than in fact exists. In addition, extra-budgetary financing of programs such as that of the Federal National Mortgage Association can hardly be justified as sound budget procedure. The exchange of FNMA's holdings of certain mortgages for certain outstanding nonmarketable Federal debt issues, according to the Treasury's own testimony, is aimed at keeping debt operations within the statutory debt ceiling. The economic impact of FNMA operations on the flow of funds and demands in the mortgage market is therefore not clear. Selling off Federal assets as a means of reducing net budget outlays is poor financial management and makes it difficult to judge the effect of fiscal operations on the economy. The leasing of facilities, instead of outright purchases, particularly of post offices, is expensive and inefficient. Its principal purpose is to conceal the real cost of acquiring these facilities which are needed for essential public services. Proposals to use the reserves of various Federal Government trust funds to finance unrelated Federal expenditures must be rejected as only further compounding the inaccuracy of the conventional budget. Finally, end-of-the-year adjustments in both revenues and expenditures, made by hastening or delaying disbursements and by speeding

or delaying the processing of tax receipts, should be brought to a halt. This merely transfers receipts or expenditures from one fiscal year to another. Its major effect, however, is to obscure the actual budget results for the year just ending and the estimates of likely results for the year just beginning.

The ceiling on the national debt could be removed if proper fiscal, monetary, and debt management reforms were made.—The debt ceiling is an arbitrary limit which has had little influence on its stated purpose of reducing expenditures. Instead it is either not used—as the numerous requests for its permanent or temporary increase clearly show—or it is mischievous in the results of the devices which are used to get around it.

In 1957 there was an unwise and unwarranted cutback in defense orders and purchases which was made in part because of the debt ceiling and which certainly contributed to the recession of 1957–58. In the end, there was a \$12 billion deficit and the ceiling had to be raised. Many of the gimmicks, such as the selling of FNMA assets and end-of-the-year accounting tricks are done for this reason.

A responsible government should be guided in its decisions about taxes and the budget by the economic gains which the programs will bring and not by some artificial limit on the debt which in practice is avoided. Changes in these decisions should also be made on the basis of what the economy calls for either in offsetting recessions or inflationary pressures.

The debt ceiling is an anomaly in a representative and responsible government. It is an arbitrary check on the Government's budget decisions and at times makes it difficult or impossible for those who are responsible to do the right thing. Its contribution to rash fiscal actions and to economic instability clearly outweighs the effects it has had, if any, on limiting spending. If the fiscal, monetary, and debt management reforms which we have advocated were put into effect, the debt ceiling could be removed.

We need improvements in Government statistics.—Changes in defense orders for hard goods may be the single most important Government program which affects the stability of the economy. This is true because of their impact on durable goods and on plant and equipment spending.

At the moment the facts about hard goods orders are given in a monthly series which is brought out after about a 3-month timelag. This lag should be reduced. In addition, a series showing planned orders for four quarters in advance of the current quarter is of major importance. Such information, properly qualified, can aid very greatly the monetary and fiscal authorities in their plans and estimates.

At present, cash receipts from and payments to the public are shown in the aggregate and on an unadjusted basis. More data are needed if the Employment Act is to be carried out. Specifically, this information should show cash receipts from the public by major sources and payments to the public by major functions. It should further provide the information on a quarterly basis and with the seasonal adjustment.

The present unadjusted series is not particularly helpful in showing the probable impact of fiscal actions on money conditions. While other information is needed, these two series are mentioned here because of their special importance.

IV. MONETARY POLICY

The purpose of the Treasury-Federal Reserve accord of 1951

In the report of a subcommittee of this committee in January 1950, which played a considerable role in bringing about the Treasury-Federal Reserve accord, it was stated:

We recommend that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes of the Employment Act. Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability. ("Monetary, Credit, and Fiscal Policies," report of the Subcommittee on Monetary, Credit, and Fiscal Policies, 81st Cong., 2d Sess., Sen. Doc. No. 129, pp. 1-2.)

The subcommittee specifically recommended that the practice of the Federal Reserve Board in pegging the Government bond market be ended. A majority of the subcommittee believed that the freedom of the Federal Reserve Board to ease or restrict money and credit to avoid recessions and inflation was worth the cost in service charges on the national debt and some increase in the economy's interest structure. At the same time, the subcommittee said that "As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment."

It was clearly impossible for the Federal Reserve Board to peg the Government bond market and to do its part to carry out the objectives of the Employment Act at the same time. When the bond market is pegged at low interest rates by the Federal Reserve System, it loses control of the money supply and excessive amounts of money and credit are likely to be fed into the banking system, whether they are needed or not. While this policy kept interest rates low, it prevented the Federal Reserve System from carrying out its main duty to regulate credit and the money supply for the purpose of promoting stability of output and prices and economic growth.³⁵

Clearly the Board's main duty is to fight both inflation and recession depending upon the needs of the economy. The purpose of the accord, then, was to give them the flexibility to carry out such a policy. Its purpose was not primarily to raise interest rates, although some increase was probably a necessary consequence, but to bring a more competitive interest rate and a more flexible policy.³⁶

Policies since the accord

What can be said in general of the policies of the Federal Reserve Board since the accord? In general the accord has brought greater flexibility to monetary policy than would otherwise have been the case. However, we believe that monetary policy has been unduly restrictive, not as flexible as it could have been, and has not performed as well as it might have done in promoting the objectives of the Employment Act.³⁷

³⁵ Mr. Patman dissents. See his views, pt. 2.

³⁶ *Ibid.*

³⁷ That monetary policy has been excessively restrictive, particularly during 1956-57, was suggested by several committee witnesses. See Hearings, pp. 2163, 2166, 2193, 2219, 2430-2440.

Just as the preaccord policy promoted artificially low interest rates, the policies pursued, particularly since 1953, have brought interest rates to levels higher than they should or need be. In other words, while the accord created the conditions under which monetary policy could do a better job, and while some improvement has been made, the full potential of monetary policy to promote stability and economic growth has not been realized.³⁸

Reasons for the shortcomings

There are numerous reasons for the shortcomings in the exercise of monetary policy in recent years. These fall into two general categories. First, there are those for which the Federal Reserve Board had little or no responsibility. Second, there are those for which the Federal Reserve must bear major responsibility.

Shortcomings over which the Federal Reserve Board has not had major responsibility

(a) *Fiscal policy.*—One of the key phrases in the report of the subcommittee, which led in part to the accord, was that “appropriate, flexible, and vigorous monetary policy” must be “* * * employed in coordination with fiscal and other policies.”

The Federal Reserve cannot promote growth, full employment, and general price stability by itself. Monetary policy must operate in a context of appropriate fiscal and other policies which are pursued by other agencies of the Government. The failure of fiscal policy is detailed in chapter III of this report. Here, therefore, we need only emphasize that fiscal policy should be strengthened so that monetary policy does not have to shoulder so much of the stabilization burden.³⁹

(b) *Monetary policy and the recent inflation.*—The most recent inflation was that of the 1955–57 period. Over the last year and a half prices have risen somewhat but by exceedingly small amounts in contrast with the 1955–57 experience. Monetary policy in the 1955–57 period was extremely restrictive yet prices rose. Our studies show that the inflation of this period had numerous causes of which a general excess of money demand was not the main or major one. Prices rose because of increases in selected areas—some particularly unstable areas which are little affected by monetary policy, and some which were characterized by market power. In addition, the prices of services increased. In some cases, particularly medical services, this was due to a shortage of supply rather than to an excess of demand.

Monetary policy is not equipped to deal adequately with the kind of inflation which we had in this period.⁴⁰ In fact, the general tightening of money and credit had its main impact in limited areas, particularly residential construction, and not in those areas where the price rises were largely taking place.

While we do not say that monetary policy in this period should have been one of general ease, it was nonetheless excessively restrictive without producing the desired results.

³⁸ Mr. Patman dissents. See his views, pt. 2.

³⁹ The Federal Reserve and the Treasury support the judgment that monetary policy has had to carry too much of the burden. The British Radcliffe Report arrives at substantially the same conclusion with respect to the relative importance of fiscal and monetary weapons. It states, “But, when all has been said on the possibility of monetary action and of its likely efficacy, our conclusion is that monetary measures cannot alone be relied upon to keep in nice balance an economy subject to major strains from both without and within. Monetary measures can help, but that is all.” And again, “The more flexible the fiscal weapons can be made, the less will it be necessary to rely on monetary measures.” “Report of the Committee on the Working of the Monetary System,” London, HMSO, August 1959, pp. 183, 185. See their answers to the Committee’s questionnaire, Hearings, pp. 1721–1724, and 1796–1798. Also, see footnote 62 on p. 40 for further citations in support for this view.

⁴⁰ See the testimony of Charles L. Schultze, Hearings, p. 2193, as well as the concluding chapter of his Study Paper No. 1, “Recent Inflation in the United States.”

The Board cannot be criticized for the nature of the inflation in this period and the failure of policies in other areas to deal with it.⁴¹ It must, however, bear some responsibility for its excessively restrictive policies in view of the kind of inflation which we had. It must also bear some responsibility for the failure to ease conditions during the first 6 months of 1957 and, in fact, until October of 1957 after the recession was 2 months old.

At the present time and for over a year the Federal Reserve System has again pursued an extremely restrictive policy. Interest rates are now higher than they have been for some 35 years. While the Board must be prepared to move quickly when money demand is excessive, over the last year and even at this moment, unemployment is very much higher than it should be under conditions of so-called prosperity, and our economy is not growing at a rate near its potential.

It appears to be true that what price rises we have had in the last year have been similar in nature to those in the 1955-57 period and are the result of market power, increases in the price of services, and shortages in supply, rather than an excess in money demand. While an excess of demand could occur very quickly in a period of recovery, and while the Federal Reserve System must be prepared to act, as of this moment their policies seem unduly restrictive for an economy which is not fully employed.

(c) *The skill of commercial banks, financial intermediaries, and non-financial corporations in offsetting restrictive policies.*—The effectiveness of tight money policies, especially in the beginning phases of recovery, have been offset somewhat by the ability of commercial banks to shift out of Treasury securities and into private loans. Furthermore, nonfinancial corporations have shown increasing skill in the management of their cash balances. Financial intermediaries, other than commercial banks, have also helped to offset the official policies by putting idle cash balances to use.⁴² These are matters over which the Federal Reserve has only limited control and which have, nonetheless, made their policies less effective than they would otherwise be. This in turn has caused the System to tighten money further.

2. Shortcomings for which the Federal Reserve has major responsibility

(a) *The attitude of the Federal Reserve.*—At a time when the Federal Reserve System has been freed to act more vigorously in carrying out the objectives of the Employment Act, its approach to monetary policy has become increasingly more classical. Over the years since the accord, its policies have been reshaped in the image of the 1920's. For example, it restored rediscounting in the period of 1953-54. Similarly, the policies adopted as an expression of the System's philosophy of "minimum intervention" are suggestive of an earlier era. The most important of these is the "bills only" policy, about which more will be said, which is a self-imposed limit on its actions.

The accord gave the Board an opportunity to act quickly, to be more flexible, and to do a better job. The full benefits of the accord have been limited by the Board's attitude toward its responsibility.

(b) *The bills only policy.*—Since 1953 the general policy of the Board has been to limit its purchases in the open market to short term

⁴¹ Mr. Patman dissents. See his views, pt. 1.

⁴² See Study Paper No. 14, "Financial Aspects of Postwar Economic Developments in the United States," by John Gurley. See also Hearings, pp. 2219 and 2897.

Treasury obligations, or generally to "bills only." In following this policy the System is in part limiting its means to stabilize the economy. By limiting its activities to the short end of the market the System is unable to influence in any precise way the course of long term interest rates and hence the full interest rate structure. An attempt to influence long term rates through operations in bills only may lead, as it did in 1958, to sharp speculative movements in interest rates. Alternatively, the System may in other circumstances have to produce large changes in bank reserves in order to affect long-term interest rates.

There is little evidence that the "bills only" policy has had a significant effect on the depth, breadth, or resiliency of the market for long-term securities. It would appear that an important power was given up for no appreciable gain.⁴³

It may be that after a long period of pegged interest rates something like "bills only" was required to impress upon investors the fact that the Federal Reserve was no longer going to peg them. But now that wartime arrangements are a thing of the distant past, this need no longer remains. Occasional official operations in Treasury securities other than bills will not now suggest a return to a regime of pegged interest rates. They will only suggest that the Federal Reserve is once more assuming its full stabilization responsibility.

(c) *Rediscounting*.—In recent years the Federal Reserve has tried, and with considerable success, to revive rediscounting in the pattern of the 1920's. This is an unfortunate development. We feel that it should be reversed.⁴⁴ Rediscounting should be eliminated as a general practice.⁴⁵ It should be allowed only when a member bank encounters potentially serious difficulties not of its own making.

With a large stock of Treasury bills outstanding, the need for the kind of safety valve provided by Reserve bank rediscount windows is less than it once was. Moreover, in the postwar period it has been demonstrated again that rediscount arrangements are a source of trouble. They provide a means by which banks can offset monetary restraint. Any changes in the discount rate can easily affect expectations in unfortunate ways.

If rediscounting is not eliminated entirely, at least the use of the rediscount rate as an influence on interest rates should be. The rediscount rate should be made a penalty rate, and only adjusted for the purpose of keeping it so.

A broader range of monetary tools

More monetary tools rather than less are necessary for the simultaneous achievement of all of our economic goals. Present general tools primarily affect residential construction, as well as small business and State and local governments. Credit for consumers and the supply of funds for most business investment are very little affected by monetary policy. Therefore, the effect of the general policies has in fact been selective, penalizing the investment for housing, for schools, and for small business while leaving consumer outlays which are financed by credit and business investment in general, virtually immune from its effects. Monetary policy, to be more fully effective,

⁴³ See Hearings, testimony of Walter Heller, p. 2998.

⁴⁴ Mr. Patman dissents. See his views, pt. 4.

⁴⁵ Milton Friedman, in testimony before the committee, recommended that rediscounting be abolished. Hearings, pp. 3022, and 3043-3044.

should influence a broader range of expenditures and affect them more evenly.

We recommend that legislation for standby regulation of the down-payment and of the maturity terms of consumer loans be enacted.⁴⁶ Consumer credit has made a most important contribution to the economic growth of the country and has brought many goods within the means of families with moderate incomes. Furthermore, the long-term rate of growth of consumer credit has not been excessive. However, sudden surges of consumer credit have from time to time been an important source of instability. Particularly in the early stages of recovery, consumer credit has increased at rates which were clearly unsustainable. As individuals took on large repayment commitments, they had to cut back on their other purchases. This reduced the money demand for these other articles in the succeeding years. Further, the rapid rate of expansion of consumer loans in some periods has contributed to inflation through its effect both on prices and wages.

Monetary policy should help to assure that purchases of consumer durables will be at levels which can be sustained and which are consistent with the broad economic objectives we have outlined. From time to time the use of standby regulations may be helpful.

We wish to emphasize that such regulations should be administered flexibly and that they should be applied only when consumer credit is adding to the instability of output and prices in the economy.

Finally, further studies should be undertaken to determine what can be done to reduce the instability of plant and equipment investment.⁴⁷ It may well be that it is impossible to stabilize these outlays, or that stabilization would lead to a lower average level. Nonetheless, the problem should be thoroughly explored. It should be kept in mind, however, that if the rest of the economy becomes more stable, plant and equipment expenditures will automatically become more stable as well.

Expansion of money and credit for longrun growth

Over time the money supply should grow at approximately 3 percent per year. Since 1953 the money supply has grown at a rate of only 1.8 percent per year while the growth in real output has been at the rate of 2.3 percent. While there was some excess liquidity in the economy in the early part of this period, due to the war, the increase in real output and of population probably caught up with and surpassed the supply of money and credit in the latter part of the period. There is a need, therefore, for further secular expansion of the money supply in line with the growth of the economy.⁴⁸ The System should provide, after the effects of the normal increase in velocity are taken into account, a money supply adequate for the potential growth of the economy. This would certainly be higher than that which has occurred in recent times.

An appropriate secular expansion of the money supply can best be effected by means of open market operations.⁴⁹ The case for using

⁴⁶ This recommendation was made by numerous witnesses. See Hearings, pp. 2220-2221, 2439, 2766, 2962, 2998, 3070 and 3109-3110.

Mr. Patman dissents. See his views, pt. 3.

⁴⁷ See, for example, testimony of Walter Heller, Hearings, p. 2997.

⁴⁸ See testimony of Milton Friedman, Hearings, p. 3022.

⁴⁹ See Hearings, p. 3029. See testimony of Milton Friedman, pp. 3022, 3043-3044.

open market operations rather than reductions in reserve requirements is presented below in the discussion of debt management.

Truth in the cost of money

One of our major problems is that when individuals borrow they often have no specific knowledge of the cost to them of the financing. Rates expressed in monthly terms, discounts, service charges, and interest charges based on the principal instead of the unpaid balance, grossly underestimate the amount which consumers pay for their loans. In addition, the terms are often hidden in the small print at the bottom of the contract.

So that consumers may be more fully aware of the actual costs of borrowing, we recommend that legislation be passed which would require that these costs, expressed as an annual average interest rate on the unpaid balance, should be clearly stipulated in all consumer loan contracts.

Summary of policy recommendations

- (1) The Federal Reserve should abandon its "bills only" policy.
- (2) The Federal Reserve should expand the money supply at a rate which is sufficient to accommodate a rate of economic growth higher than the economy has experienced in recent years.
- (3) In providing for an adequate secular expansion of the money supply, the Federal Reserve should rely on open market operations and not on reductions in reserve requirements.
- (4) The Federal Reserve should do away with rediscounting as a general practice.⁵⁰ Rediscounting should be allowed only when a member bank is in potentially serious difficulty.
- (5) The Federal Reserve should be given standby power to regulate consumer credit.⁵¹
- (6) A detailed study should be undertaken to determine what can be done to reduce the instability of plant and equipment investment.
- (7) The true cost of money should be provided to consumers by expressing on the face of the credit instrument the total cost in terms of the annual interest rate on the unpaid balance.

⁵⁰ Mr. Patman dissents. See his views, pt. 4.

⁵¹ *Ibid.*, pt. 3.

V. DEBT MANAGEMENT

Introduction

Debt management is the set of policies which determines the composition of the publicly held Federal debt, that is the Federal debt held outside the Federal Government and the Federal Reserve System.⁵² It must be distinguished from fiscal policy, which determines whether the budget is in surplus or in deficit and, therefore, whether the total debt is to increase or to decrease. It must also be distinguished from monetary policy which determines the money supply and which affects the level of the interest rate structure. Thus, debt management only affects the composition of the debt, not its total. Debt management policy can increase the amount of long-term debt outstanding, but only by decreasing the amount of short-term debt. Similarly, it can raise or lower long-term interest rates, but only in conjunction with offsetting changes in short-term interest rates. On the other hand, the major movements of the interest rate structure are determined by the supply and demand for funds and by fiscal and monetary policy. These distinctions are important because they make clear the very narrow province of debt management in overall stabilization policy.

A decade or more ago, high hopes were held out for the stabilization potential of debt management. It was widely advocated that debt management should be managed countercyclically, that long-term debt should be issued in periods of boom, thereby reducing the liquidity of the economy, and that short-term debt be issued in recession, adding to the total stock of near money. These hopes have been disappointed. In fact, the debt has shortened with few interruptions, primarily because the Treasury has not found it feasible, throughout the postwar period, to sell significant amounts of long-term debt in booms.

If we adhere to the above definition of debt management, the shortrun stabilization potential of debt management is quite small. Whatever effects are to be achieved, they depend wholly on the difference which the maturity composition of Treasury securities held by the public has on spending behavior, and on the net effect which a combination of somewhat higher long-term rates and somewhat lower short-term rates might have. Since effects of a higher interest rate structure on spending are quite moderate, the effect of offsetting interest rate changes in the long- and short-term sector must be even smaller.

The greatest contribution which debt management could make to the longrun attainment of our economic objectives would be to reduce its interference with monetary policy. A longer average maturity of the debt would help to attain this objective.⁵³ The Treasury would have to come to the market less often, and the

⁵² For a discussion see forthcoming Study Paper No. 19, "Debt Management in the United States," by Warren L. Smith.

⁵³ Both the Federal Reserve and the Treasury support this judgment, see Hearings, pp. 1710-1724, 1996-1998. See also Richard Musgrave's testimony, p. 2767.

switching in and out of government securities over the business cycle by financial institutions, which reduces the effectiveness of monetary policy, would at least be somewhat reduced.

In order to promote economic growth, a more equitable distribution of the national income, and to keep down the interest costs in the Federal budget, the Treasury should seek to keep the interest costs as low as possible. Thus, we recommend as the fundamental objectives of debt management today that the debt be lengthened at minimum interest cost. This will mean the sale of long-term securities in periods when interest rates are low. Should short-run stabilization policy require other actions in the long-term market over the business cycle, it is the proper duty of monetary policy, and hence of the Federal Reserve System, to carry them out.

Recommendations for improved debt management

Because the question of the 4¼ percent interest rate ceiling is of such importance, most of the recommendations for improved debt management are discussed in connection with it, in order to avoid unnecessary repetition. However, there are two points which should be made here. These deal with advance refunding and the issue of savings bonds which can be adjusted to the price level.

Advance refunding, which gives holders of existing long-term maturities a chance to exchange them for new long-term securities before they reach maturity, can be an important means of lengthening the debt.⁵⁴ Through advance refunding the Treasury substantially reduces the attrition which it ordinarily suffers when long-term issues are refinanced. Long-term investors who ordinarily might sell a bond near maturity to individuals interested in short-terms, and who then might invest the freed funds in non-Government long-term securities, are thereby encouraged to keep their funds in Governments. Advance refunding has to be done gradually and in moderation, in order to prevent the interest costs from being driven up.

Because small investors find it difficult to put their savings into an investment medium which is protected against inflation and relatively risk free, the Treasury should issue some savings bonds which are adjusted to changes in the price level.⁵⁵ In order to confine these bonds to individuals of modest means, who do not have other investment media available to them that are secure against inflation, such bonds should be issued in limited quantity to any individual.

The interest rate ceiling

It is our recommendation that the 4¼-percent ceiling on long-term Government bonds (those over 5 years) not be removed until major reforms in fiscal, monetary, and debt management policies are instituted.⁵⁶ The total effect of the reforms, however, would be to make the long-term interest rate more competitive, lower than it is at present, and reduce the conflict over the ceiling to largely academic pro-

⁵⁴ See Hearings, Richard Musgrave's testimony, p. 2768 ff.

⁵⁵ This recommendation is advanced by H. S. Houthakker in his Study Paper No. 8, "Protection Against Inflation," and by Richard Musgrave, Hearings, p. 2768.

⁵⁶ Mr. Coffin and Mr. Bolling: "We recognize that there is no logical reason for an arbitrary 4¼ percent ceiling. We also recognize the looming necessity, between November 1960, and December 1961, for refinancing some \$18.6 billion in long-term bonds. In the absence of a recession, this task, under the current ceiling, without benefit of other reforms, would be formidable. To focus all efforts, however, on repealing the interest ceiling, without using the period of the next 22 months to initiate basic reforms in monetary, fiscal, and debt management policy, is to insist on fighting inflation with only one major weapon—which could be overworked, to the ultimate disadvantage of the taxpayers. We therefore take the position of not objecting to removal of the 4¼-percent ceiling, if accompanied by the initiation of other basic reforms."

portions. We wish to make absolutely clear that these reforms in no way include the pegging of the bond market.⁵⁷

The arguments and policies affecting the interest rate ceiling are set out in full here. We are aware that they repeat some points made in the sections on fiscal, monetary, and debt management policies. Because of the importance of this subject, we believe it necessary to do this.

1. *Imperfect competition in the Government bond market*⁵⁸

(a) *The volume of borrowings.*—The borrowings of the Federal Government are of such large volume both in total and in comparison with the volume of bonds of corporations and of State and local governments that they help markedly to determine interest rates instead of merely conforming to the forces of competition and supply and demand as has so often been asserted by the Treasury.

In economic language, the situation approaches monopsony or a market in which one buyer purchases such a large proportion of the supply that imperfect competition results.

The facts are that in 1958, the Federal Government borrowed three-quarters of the funds in the long term market (excluding short term bills, mortgages, and consumer credit). The total of corporate borrowings was \$11.4 billion, of which \$10.8 billion was new money and \$600 million was refunding. The total of State and local government borrowings was \$7.8 billion, of which \$7.7 billion was new money and \$100 million was refunding. The total Federal borrowing was \$62.2 billion, of which \$11.3 billion was new money and \$50.9 billion was refunding.

Thus, of a total of \$81.4 billion which was borrowed in the market by these three sources, the Federal Government's share was \$62.2 billion, or 76.4 percent.

The often asserted view that the Government does not make interest rates but merely conforms to an interest rate which is determined by other forces in the general money market, is obviously not true. At the very least, the policies and actions of the Treasury have a considerable influence on the cost of money even if it is granted that they do not wholly determine the cost of money.

(b) *The sources of advice.*—While the Treasury's small and competent debt management staff engages in some market analysis, the Treasury places too much reliance concerning both the length and rate of maturities on the advice it seeks from its customers.

Specifically, before any appreciable bond issue is floated, the Treasury calls in advisory committees from the American Bankers Association, the Investment Bankers Association, and also from time to time from mutual savings banks, insurance companies and savings and loan institutions.

At the request of the Joint Economic Committee, the American Bankers Association provided a list of its recommendations to the Treasury and Treasury action with respect to its advice from 1952 to 1959. Some 103 specific recommendations were involved.

In the period 1952-1959, some 83 or 80.6 percent of the recommendations were accepted by the Treasury, while only 20 or 19.4 percent were rejected. In almost 60 percent of the cases the advice

⁵⁷ Mr. Patman dissents. See his views, pt. 2.

⁵⁸ Mr. Patman believes more needs to be said on this point. See his views, pt. 7.

was accepted as given, and in another 17.5 percent of the cases it was accepted with only very minor changes.

In the period 1953-59, the advice of the American Bankers Association was accepted on 71 occasions, or in 84.5 percent of the cases, and rejected on only 13 occasions, or 15.5 percent of the time.

It is interesting to note that in 1952 the advice was rejected in 37 percent of the cases as compared with only 15 percent of the cases in the period 1953-59. The rejection rate, therefore, has been 60 percent less than in 1952. A table giving the results of the American Bankers Association's recommendations is given below.⁵⁹

TABLE 6.—Disposition of advice of the American Bankers Association to the Treasury with respect to new issues, 1952-59

Period	Total	Advice accepted				Advice rejected
		As given	But with minor changes	Partially, but with some major changes	Total accepted	
1952:						
Number.....	19	11	1	0	12	7
Percent.....	100.0	57.9	5.3	0	63.2	36.8
1953-59:						
Number.....	84	50	17	4	71	13
Percent.....	100.0	59.5	20.2	4.8	84.5	15.5
1952-59:						
Number.....	103	61	18	4	83	20
Percent.....	100.0	59.2	17.5	3.9	80.6	19.4

If, in a country which we shall call X, there were a labor government in power; and if the basic wage was determined periodically by the Minister or Secretary of Labor; and if he sought his advice in the main from a committee set up by the counterparts of the heads of the American Federation of Labor and Congress of Industrial Organizations; and if in over 60 percent of the cases, their advice was accepted without any change; and if in another 20 percent of the cases it was accepted with only minor changes, and if in 5 percent of the cases it was accepted with some major changes; and if in only 15 percent of the cases it was rejected, the financial community of country X would certainly claim that this was a noncompetitive wage rate and one which, in fact, was set in large part by the labor movement in that country and the Government Minister or Secretary who was most sympathetic with its views. One can carry analogies too far, and we do not say or imply that in this country such rates are set by dictation. Nevertheless, there is an amazing degree of what can be called "conscious parallellism" between the recommendations of the customers of the Treasury and its decisions on the interest rate and maturity of its issues. It is important that the Treasury set up an adequate marketing analysis and research staff upon whose advice it can largely rely and which is not influenced either in fact or in appearance by the advice of an organized group of customers.

(c) *The absence of auctions.*—Except for its bills which are sold at auction on a discount basis, Treasury practice is to sell securities (certificates, notes, and bonds) at a fixed price and with a fixed length of maturity. Once the price and maturity are set by the Treasury,

⁵⁹ For complete details, see Hearings, pp. 1221-1230. See appendix for tables with the complete recommendation.

bidding is limited to the volume which is sought to be purchased at such price and maturity. In practice, most issues are oversubscribed.

When bills are sold by the auction method, the Treasury sells each block of securities at the highest price its buyer would be willing to pay. The auction method for bills probably results in a lower interest cost to the Treasury than if this kind of bidding did not take place. While there are some obstacles in the way of the Treasury immediately extending the auction method—which it applies to bills, to the sale of certificates, notes, and bonds—the device seems promising enough that it should be extended as quickly as possible to these longer-term issues, beginning initially with the shorter issues and extending the practice as experience is gained.⁶⁰ The present system raises very real doubts that the Treasury is getting the best bargain which it could in the sale of certificates, notes, and long-term securities.

2. *Sale of long-term bonds when interest rates are low*

Even though the Treasury has lengthened its debt structure somewhat during times of recession when interest rates are low, the average length of the debt has shortened. In 1952, the average length of the debt was 5 years and 8 months. As of the first of June 1959, it had fallen to 4 years and 7 months. Thus, the average maturity had fallen by 1 year and 1 month before the administration requested that the interest rate ceiling be removed. The average length of maturities had therefore been greatly shortened before the administration felt hampered by the rise in the interest rate.

More could be done to lengthen the debt when interest rates are low. At this time when interest rates are extremely high, it is advocating the removal of the long-term interest ceiling in order to refund as much as \$20 billion in long-term bonds. This would raise interest costs to the taxpayer for many years and increase the general level of interest rates in the economy.

We believe that the primary purpose of the Treasury with respect to debt management should be to get the best possible bargain for the people of the United States in the sale of Government securities. Consequently, fiscal policy and not debt management should be the main Treasury countercyclical weapon. We believe that insufficient effort has been made to use fiscal policy in this way.

If it is necessary for shortrun stabilization purposes to alter the composition of the publicly held debt, this should be the responsibility of the Federal Reserve System.

3. *Callable bonds*

In recent years, the Treasury has issued no callable securities. Yet, private business finds it profitable to do so regularly. While such a feature might increase the immediate cost of financing the debt by some small amount, in the long run such a feature would permit the Treasury to refinance its structure to take advantage of favorable movements in the interest rates in future years. Consequently, the Treasury would not be permanently saddled with long-term issues sold when interest rates were at their peak. We, therefore, advocate that such a feature be included in at least some long-term securities.⁶¹

⁶⁰ Milton Friedman recommended greater use of auctions, but with modification. Hearings, p. 3024.

⁶¹ See "Staff Report," p. 427.

4. *Failure of fiscal policy*

The most effective means of reducing interest costs in the immediate future is to run a budget surplus large enough in periods of recovery and prosperity that some of the funds can be used for debt retirement.⁶² In years when a surplus coincided with periods of prosperity and upward pressures on interest rates, the Treasury would not need to borrow new money, and by using some of the surplus to retire a part of the privately held public debt, it would be placed in a net creditor rather than a debtor position. This would have the effect of raising the price of Government bonds and, hence, lowering their yield or interest rate.

In recent times, the Treasury has failed to produce such a surplus in periods of recovery and prosperity. They have attempted to meet the difficulties which such failure has caused by demanding that the long-term ceiling be removed.

Yet the basic solution lies close at hand. With the present basic tax structure, revenues could be considerably increased by the tax measures listed in a preceding section.

In addition, numerous savings could be made in the military procurement and surplus programs. Furthermore, there are numerous subsidies in the budget, particularly for agriculture and business, which if reduced, would provide a cut in expenditures.

In our opinion, revenues could be increased by as much as \$3 billion on an annual basis by plugging the most notorious of the tax loopholes. A further \$3 billion could be cut from existing expenditures through proper military procurement and surplus disposal policies and the reduction of both agricultural and business subsidies. While the military savings should properly be devoted to missiles and the strengthening of our combat forces, such changes could produce an adequate budget surplus. This could do more than any other single policy to reduce the long-term interest rates. It would further allow us to make modest beginnings to increase badly needed public services and in programs for those individuals and sectors in our economy which are now starved for funds. Such changes can be made if the Treasury and the administration would actively support them.

5. *Trading in Government bonds*⁶³

Thus far we have been looking at the Government bond market with respect to new issues and the operations of the Treasury. However, an important factor is the daily trading in existing or outstanding Government securities.

The trading is done by only 17 dealers. There has been no increase in their number in some considerable length of time.

They are to the Government bond market what floor traders or specialists on the stock exchange are to the stock market. The volume of their trading is enormous and includes trading in the \$62 billion per year of direct Government issues, the \$20 billion held by the Federal Reserve Board, and private trading in the \$120 billion of outstanding issues. The general volume is in the magnitude of \$200 billion.

The facts are that this enormous trading is done by this limited number of dealers and that it is done with virtually no margin require-

⁶² This judgment was widely supported in testimony and submitted statements. Hearings, pp. 3067, 3087, 3182, and 3221. See also footnote 39, p. 30, for additional references.

⁶³ The conclusions in this section are based on hearings which were held in New York. Mr. Patman believes more should be said on this subject. See his views, pt. 7.

ments either on the part of the dealers or their customers. Two of the 17 dealers are members of the New York Stock Exchange which requires margins of 5 percent. Five are banks which finance their bond operations out of general bank assets. The remaining 10 are not required to provide margins of any amount and, in fact, operate with only such margins as are demanded by banks or others who loan them funds to finance their daily operations. Their customers are required to provide either no or very limited margins, depending upon their credit standing and the security sought.

Figures produced in our hearings showed that in one month, these 17 dealers did over \$18 billion worth of business with average checking accounts of only \$20 million. Thus, they did business of 40 times their capital on a daily basis, 880 times their capital on a monthly basis (22 days to the month), and almost 11,000 times their capital on a yearly basis. Thus, an extremely small amount of capital carries a large amount of securities.

In the recent past, the lowness of margins on the part of purchasers—particularly short-term speculators—certainly contributed to the sharp rise and then a sharp fall in the prices of Government securities. Portions of the Treasury and Federal Reserve Board study (see pp. 90-91) on the debacle in the Government bond market in 1958 might well have described the behavior of the stock market in the decline of the late October and November of 1929. In both instances, there were relatively low margin requirements in comparison with the price movement of the securities in question. The margins were wiped out quickly. Then came a wave of distress selling. This, in turn, caused prices of securities to go down even further and the speculative situation pyramided on itself. Thus, the low margin requirements were certainly a contributing factor to a cumulative decline.

The regulation of stock exchanges and the imposition of margins on stocks has largely reduced this source of speculative decline in the stock market, but the Government bond market is still operating with little or no margins and little or no regulation. The bonds of the U.S. Government should be safeguarded against harmful speculation.

Steps should be taken both to expand the number of dealers and the competitive nature of this market. Furthermore, steps should be taken immediately by the Federal Reserve System to determine what public regulation of this market is desirable. Certainly, margins should be required of customers who trade in Government bonds. In addition, dealers should be subject to at least such financial requirements as are now demanded of floor traders or specialists on the exchanges. This is a most serious and neglected situation and demands immediate attention and action.

6. Federal Reserve policy

While Federal Reserve and monetary policy are discussed in detail elsewhere, there are certain aspects of the policy which have a direct bearing on the interest rate ceiling and the Government bond market.

(a) *Bills-only policy.*—The first such Federal Reserve policy is that which is called bills only.^{63a}

Since 1953, the Federal Reserve, as a matter of self-imposed restraint, has generally limited its purchases and sales of Government

^{63a} For a detailed critique of the doctrine of "bills only," see forthcoming Study Paper No. 19, "Debt Management in the United States," by Warren L. Smith.

securities to short-term bills. One effect of the bills-only policy is to weaken the long-term market by letting harmful disparities develop between long- and short-term interest rates. There is no reason why the Federal Reserve, when it deems it advisable to buy and sell securities, should not buy or sell securities of varied maturities including some long-term bonds.

We are not advocating that the Federal Reserve peg the long-term bond market.⁶⁴ We are advocating that the Federal Reserve System assume responsibility for the orderly behavior of our credit markets. Such improvement in behavior would make Government bonds more attractive to investors and, hence, would lower interest rates on Federal securities.

The record does not indicate that the Federal Reserve bills-only policy has significantly improved the performance of the Government securities market or interest rate structure. In its present form, the policy should be abandoned.

(b) *Improving the Federal Reserve portfolio.*—A method by which the interest rate structure can be improved and the long-term bond market strengthened as a consequence, without, in any way, expanding the money supply or pegging the bond market or producing inflationary effects, is by changing the mix in the holdings of the Federal Reserve portfolio.

In 1951, the Federal Reserve held almost \$5 billion in long-term bonds which was 21.5 percent of its total portfolio holdings of \$22.7 billion. As of the end of October 1959, the Federal Reserve held only \$1.5 billion in long-term bonds which was only 5.7 percent of its total portfolio of \$26.3 billion. There is no reason why the present ratio should not be improved.

In a period when no expansion or contraction of the money supply is desired, the ratio of long- to short-term securities held by the Federal Reserve could be considerably improved by the purchase of long-term bonds and the sale of an equivalent amount of short-term securities.

Such exchange operations could be done as a general policy. With small purchases over time, it would have the effect of strengthening the long-term market, increasing the price of long-term bonds, and consequently reducing the long-term interest rate under what it would otherwise be. Furthermore, when a proper ratio was reached, the Federal Reserve would be in a position to make its task of responsibility for the orderly behavior of the credit markets and the improvement of the debt structure an easier one.

We are not advocating that the Federal Reserve intervene only to support the Treasury at the time of an offering.

As an equivalent number of short-term securities would be sold simultaneously with the purchase of long-term bonds, there would be no expansion of the money supply.

(c) *Open market operations instead of lowering reserve requirements.*^{64a}—The Federal Reserve and the banking system operate under what is known as the fractional reserve system. The Federal Reserve affects the money supply basically by two major kinds of tools. One is by fixing the levels of the reserves which banks are required to hold against their deposits. The other is the buying and selling of Government bonds which affect the amount of money and credit which is outstanding.

⁶⁴ Mr. Patman dissents. See his views, pt. 2.

^{64a} See testimony of Milton Friedman, Hearings, pp. 3022, 3043-3044.

At the present time, the banking system as a whole can expand money and credit approximately six times the amount of the reserves it holds. When an expansion of the money supply is desired, either for cyclical or for secular purposes, the Federal Reserve Board can either lower reserve requirements, which would increase the amount the banking system could expand credit, or it can purchase Government bonds which has the effect of putting more money into the system upon which credit through the banking system can be expanded. When a contraction of the money supply is desired, the Federal Reserve can increase reserve requirements, which decreases the amount by which the banking system can loan funds, or it can sell Government bonds which also has the effect of contracting the money supply.

The ultimate effect of either weapon is the same. There is very little to choose between them on the final effect which will come about. Furthermore, at best, there are only very minor differences in the effects of the process. If anything, there is very little that lowering reserve requirements can accomplish that cannot be done with more finesse by means of open market operations.

However, the Federal Reserve has not raised member bank reserve requirements since 1951 and has lowered them several times, particularly in the two periods of recession since 1953. It appears to be aiming at a general reserve requirement level of about 10 percent which, in the opinion of this committee is not necessary nor in the public interest.

We believe that reserve requirements should be kept at their present general level⁶⁵ and that the open market operations tool is to be preferred, for it has the advantage that the Federal Reserve then secularly absorbs Government securities into the System portfolio.

When the Federal Reserve lowers reserve requirements, the banking system expands the money supply and receives the interest on such expansion in terms of bank profits without any cost to the banking system itself. On the other hand, when the money supply is expanded by way of open-market operations, the banking system receives roughly five-sixths of the profit on such expansion, but the Federal Treasury receives approximately one-sixth of the profit in the form of the interest on the bonds held by the Federal Reserve, 90 percent of which is returned to the Treasury at the end of each year.

Under the Constitution, Congress has the power to coin money and regulate the value thereof. The courts have quite properly held that this power includes the creation of money. This power has been delegated to the Federal Reserve Board as the agent of the Congress and through it to the private banking system. Since this power lies with the Congress and is properly a function which the Congress and the Government should supervise, the Government, when it delegates this power to the private banking system, has the right to expect that it should receive at least a proper share for the public, which in the case of the creation of demand deposits is at least one-sixth. It is not unreasonable to expect this when the private banking system receives five-sixths of the profits from the fractional reserve system. The public interest is not served when the private system receives 100 percent of these profits which is the case when reserve requirements are lowered in the interest of expanding the money supply.

⁶⁵ Mr. Patman dissents in part. See his views, pt. 8.

As at least 90 percent of the Federal Reserve profits are returned to the Treasury and as they would be cumulative, they would provide a considerable sum which could be used for such purposes as debt retirement. This, in turn, would tend to strengthen the Government bond market and lower interest rates. The Federal Reserve, in extensive hearings and questioning, has been unable to provide us with an economic or monetary justification for preferring lower reserve requirements instead of the open-market method of expanding the money supply when necessary.

In fact, if instead of the policy of lowering reserve requirements, the expansion of credit which was created by this means since 1953 had instead been created by open-market operations, the net increase of revenue to the Treasury at the bond rate would have amounted to a total of almost \$500 million and at a present annual rate of some \$112.7 million. (See table 7.)

TABLE 7.—Reductions in member bank reserve requirements and comparisons with equivalent open market purchases by Federal Reserve System, July 1, 1953, to Dec. 31, 1959

Date	Reserve requirements as percent of deposits in—				Reduction in requirements in—					Interest per annum on open market purchases of amount equivalent to Reserve reduction if placed—		Estimated added payment U.S. Treasury assuming equivalent open market purchase and transfer to Treasury of 90 percent of net in lieu of franchise tax			
	Central Reserve cities	Reserve cities	Country	Time deposits	Central Reserve cities	Reserve cities	Country	Time deposits	Total	In "bills only"	At prevailing bond rate	Per annum at—		Cumulative to Dec. 31, 1959, at—	
												Bill rate ¹	Bond rate	Bill rate	Bond rate
	Percent	Percent	Percent	Percent	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions
In effect prior to July 1953.....	24	20	14	6											
1953, July 1, 9 ²	22	19	13		\$500	\$345	\$311		\$1,156	\$25.7	\$37.6	\$23.1	\$33.8	\$150.3	\$219.7
<i>1954</i>															
June 16, 24 ²	21			5	520	350	310	\$375	1,555	26.9	42.0	24.2	37.8	133.2	207.9
July 29, Aug. 1 ²	20	18	12												
<i>1958</i>															
Feb. 27, Mar. 1 ²	19½	17½	11½		125	195	180		500	12.4	16.3	11.2	14.7	19.6	25.7
Mar. 30, Apr. 1 ²	19	17	11		125	190	175		490	24.7	29.3	22.2	26.4	36.8	43.8
Apr. 17.....	18½				130	190			450						
Apr. 24.....	18	16½			130										
Total.....					1,530	1,270	976	375	4,151	89.7	125.2	80.7	112.7	339.9	497.1

¹ Quarterly average rate for period.

² First-of-month or midmonth dates are changes at country banks, and other dates (usually Thursday), are the central Reserve or Reserve city banks.

Source: Based upon data from Federal Reserve bulletins and announcements.

Economists agree that the money supply of the country should be expanded to keep pace with the increase in population and production of the Nation's economy. Expansion or contraction of the money supply should, of course, be used when appropriate as a countercyclical weapon. Nonetheless, over time, there should be a general secular expansion of the money supply to keep pace with the growth of the economy.

Such an expansion, when the normal change in the rate of velocity is taken into account, would ordinarily be at the rate of about 3 percent per year on the average.

The concept or definition of the money supply varies. If it consists of demand and time deposits plus the currency held outside the banks, the supply now exceeds \$240 billion. An expansion of 3 percent of this amount through open-market operations would mean the purchase of \$1 to \$1.5 billion of securities in the first year.

Another concept, and a more limited one, is that the money supply consists of net demand deposits plus the currency held outside the banks. This amounts to about \$135 billion. An expansion of 3 percent of this amount would require the Federal Reserve to purchase about \$473 million of Treasury securities in the first year. (See Hearings, pp. 1252-1254.)

Another concept is that of expanding the Federal Reserve System portfolio of Government securities, upon which the fractional reserve system operates, by 3 percent per year. As the Federal Reserve now holds slightly more than \$25 billion in Government securities, such an expansion would require the purchase of about \$750 million of Government securities in the first year. As it is this portfolio over which the Federal Reserve System has direct control, and as it is a figure about halfway between the other two, we believe that at this time it would be proper to use it as the base upon which the expansion of the money supply could take place.

The potential Federal Reserve profits which could be returned to the Treasury on this additional increment would then amount to approximately \$22 million in the first year, \$44 million in the second year, and would be cumulative. Over 10 years this would amount to \$1,356 million plus accumulated interest.

The amounts of such profits which could be returned to the Treasury, no matter what concept is used, may seem unimportant to the Federal Reserve and to the Treasury, but they seem important to us.

There appears to be no reason why the Federal Reserve, as it determines when it is proper to provide secular expansion, cannot purchase Federal securities through the open market mechanism to achieve this purpose. If such secular expansion were to take place under present conditions, it would appear that the purchase of long-term securities for this purpose would be warranted. This would help to lengthen the debt structure, increase the price of bonds, and have the effect of lowering the long-term interest rate.

7. Conclusion

The present interest-rate structure is higher than it would be under more competitive conditions. Furthermore, numerous changes in both the Treasury and Federal Reserve policies could have a consid-

erable effect on the interest-rate structure without recourse either to pegging the bond market (which we do not advocate)⁶⁶ or creating inflationary pressures. Many of us in Congress, which under the Constitution has the power to coin money and regulate the value thereof and which has the legislative authority to affect both debt management and fiscal policy, would be unwilling to see the long-term 4¼-percent interest rate ceiling removed in the absence of major and extensive reforms in the areas which we have mentioned. In the absence of major reform, we recommend against the removal of the 4¼-percent ceiling.

By improved Treasury knowledge when pricing new offerings, including more diverse and disinterested sources of advice, by instituting the auction method in the sale of long-term securities, and by broadening and deepening the market for long-term bonds through Treasury facilities, we believe that the interest rate can be made more competitive and hence lower than it now is.⁶⁷

In addition, we believe that the Government bond market can be strengthened, the debt lengthened, and interest rates lowered (1) by the more extensive use of fiscal policy to provide surpluses in times of recovery and prosperity, (2) by making the necessary tax and expenditure reforms to provide such a surplus, (3) through the greater sale of long-term bonds when interest rates are low, and (4) by instituting callable bonds.

We believe further that major reforms should be made in the market for trading in outstanding issues, including the imposition of customer margins, by more adequate supervision and regulation of the dealers and by the expansion of their number. The market would be strengthened by these steps which would make it less speculative.

With respect to monetary policy, certain changes can strengthen the market without recourse either to pegging or inflationary devices. These include (1) the abandonment of the bills-only policy, (2) restoration of the long-term portfolio position of the Federal Reserve by means of the simultaneous selling of short-term securities as long-term securities are purchased, and by (3) keeping present reserve requirement levels and using the open market mechanism for both cyclical expansion or contractions and secular growth. With respect to the latter, if such secular expansion were to take place under present conditions, the purchase of long-term securities for this purpose would be warranted. By its refusal to consider even modest proposals with respect to the nonpegging and noninflationary open market operations proposed in the last session of the Congress, the Federal Reserve and the Treasury have asked the Congress to disarm itself unilaterally in a field over which it has both a constitutional and a legislative prerogative.

It may well be that only by refusing to remove the ceiling can these major reforms be brought about.

It may be mentioned in passing that in the exercise of its constitutional power to coin money and regulate the value thereof, the Congress has generally been judged to have been correct in the light of history when it has opposed the opinions of the dominant interests

⁶⁶ Mr. Patman dissents. See his views, pt. 2.

⁶⁷ Mr. Patman believes more needs to be said. See his views, pt. 7.

in the financial community. It was Congress which created the Federal Reserve System over the bitter opposition of the financial community. It was Congress which regulated the securities market when the financial community asserted that no regulation was necessary.

It was Congress and leading members of this committee who fought for the independence of the Federal Reserve System, in opposition to the Treasury, which led to the Treasury-Federal Reserve accord of 1951.

We hope, therefore, that our views with respect to further reforms may be read in the light of history by the public and the financial community.

VI. POLICIES TO IMPROVE THE STRUCTURE OF THE ECONOMY⁶⁸

It has already been noted that several factors have caused the postwar inflation and the slow rate of growth of the past few years. It is clear that no one type of public policy is enough to deal with these problems. Our studies have shown, however, that certain structural aspects of the economy, particularly the presence of large industrial and labor groups who have market power, have contributed in some degree to the inflation and growth problems.

Reducing the exercise of market power

Broadly speaking, the term "market power" refers simply to the ability of sellers to raise the price of their goods or services in the absence of excess demand pressures.

The problem of market power should be dealt with directly because the alternative policies—primarily monetary and fiscal—deal with the problem of inflation from the demand side of the market, both in general or specific ways. The very nature of market power, however, is such that a relatively small reduction in demand will bring little, if any, changes in prices or wages. If monetary and fiscal weapons were to be used, therefore, they could be effective only at the cost of a very high rate of unemployment of both capital and labor.

Market power can have bad effects on the rate of economic growth.⁶⁹ A free enterprise economy, if it is to operate effectively, depends on competitive markets. These provide an environment in which new ideas and better products are encouraged. Efficient production and lower costs are reflected in reduced prices, greater sales, and a generally higher standard of living for the entire society. This same point has often been made in somewhat more technical terms by economists. They can demonstrate that with given demand and cost conditions, the equilibrium price under competition will be lower, and the level of output higher, than will be true under imperfect competition. Further, the greater the deviation from pure competition—that is, the greater the degree of monopoly in the industry—the greater will be the difference between the competitive price and output and the monopoly price and output.

The critics of more competitive markets sometimes argue that such an approach would be harmful because monopoly is necessary to get the advantages of mass production, of private research, and of economies of large-scale purchasing and distribution, and so forth. Granted that the best size of a firm for gaining the advantages of technology and of research may be quite large in some industries, it does not follow that industrial giantism is necessary. There is no evidence, to indicate that greater and greater efficiency goes in step with greater and greater size; rather, most of the huge corporations in industry enjoy no greater economies of mass production and provide no greater improvements through research than do firms one-quarter or one-

⁶⁸ Mr. Patman believes more should be said. See his views, pt. 5.

⁶⁹ For a discussion of the effect of market power on the rate of growth and the need for competition, see Hearnings, testimony of Howard Hines, p. 1977; William Martin, p. 2001; Robert Bicks, p. 2100; Jesse Markham, p. 2120; and James Duesenberry, pp. 2324-2328.

eighth of their size. This point is even stronger in situations where larger corporations are created merely by the merger of existing, efficient, profitable, and reasonably large concerns. While there may be a private gain, there is no gain to the economy or to the society as a whole. More competition in industry and the economic advantages of large-scale production are not inconsistent goals.⁷⁰

On the other hand, the losses to the economy from the continued existence and future development of giant companies can be substantial. The presence of one or two huge firms which dominate an industry is precisely the type of economic condition in which price leadership and other coordinated action can take place without overt agreement. These practices are the very core of market power in our present industrial structure. By the same token, the merger of large firms into even greater ones typically provides little or no real gains to society. It makes it easier to exercise more market power and further limits the forces of competition.

Strengthening antitrust policy

We recommend that the basic approach to the problem of excessive market power by large business units should be through an expanded and strengthened antitrust program.⁷¹

This approach has the advantage of not only reducing this source of inflationary pressure, but also of raising the ability of the economy to grow, of reducing undesirable concentrations of power in private hands, and of accomplishing this without increasing the amount of direct Government intervention in the operation of the private pricing mechanism.⁷²

Past antitrust action has had a profound and beneficial effect on the character of the American economy by preventing legal cartels and has undoubtedly limited the use of market power. Nevertheless, in our history the enforcement of the antitrust laws on the whole has been disappointing. The courts have generally interpreted the Sherman and Clayton Acts in ways which have made them ineffective in curbing the exercise of market power in modern industry. This problem has been particularly important where the courts have insisted upon some direct evidence of collusion or concerted action to support a finding of antitrust violations, whereas modern pricing and other practices do not require and do not usually involve such direct or contractual collusion. In addition, legal delays have been long, and the resources of the Antitrust Division and of other agencies responsible for enforcement have been inadequate to deal with the responsibility and importance of the tasks they must perform.

Within the past few years, the courts appear to be more aware of the broader economic meaning of size as a factor in market power, even when this is independent of concerted action. The courts have also become more critical of the role of mergers on the effectiveness of competition. It is to be hoped that these trends will continue.

In addition, however, the Government should take more specific steps to strengthen our present antitrust policy. Specifically we recommend:

⁷⁰ The testimony of witnesses Howard Hines and Daniel Hamberg support the thesis that optimum efficiency does not require "giantism." See Hearings, pp. 2013-2014, 2343-2347, and 2377-2378.

⁷¹ This view was supported by numerous witnesses, including: Robert Gordon, p. 2963; Walter Heller, p. 2993; Martin Segal, p. 2640; Howard Hines, p. 2005-2006; William H. Martin, p. 2016; Jesse Markham, p. 2129; Ewald Grether, p. 2118; John Miller, pp. 2125-2126; and Robert Lanzillotti, p. 2262.

⁷² For a survey of approaches to this problem see Study Paper No. 10, "Potential Public Policies To Deal With Inflation Caused by Market Power," by Emmette S. Redford.

1. More effective application of antitrust legislation to industries in which a high degree of market power is possessed and exercised by large producers, even where no evidence of direct or overt collusion can be shown. The problems of establishing appropriate criteria in this area are difficult; nevertheless, it is in these industries where much of the market power which concerns us is found.

2. Prenotification of proposed mergers to the Antitrust Division within some reasonable time before the date when the merger is to be carried out. In this way, prior judgment can be made and action taken if it is believed that the proposed merger will substantially lessen competition in the industry.⁷³

3. Greater power for the Antitrust Division to subpoena records in civil cases.⁷⁴ The existing limitations on this power limit the ability of the Division to carry out effective investigations.⁷⁵

4. Substantial strengthening of the staff and the budget of the Antitrust Division. Even after recent increases, the funds provided to the Antitrust Division are less than \$4.5 million, an astoundingly meager amount for the functions it is expected to perform. The professional staff of the Division should be expanded, and salary levels should be set high enough to prevent the drain of experienced personnel into private industry.

5. That the Congress review the policies of the regulatory agencies in those industries which are granted exemption from the antitrust laws. We need more knowledge of the effects of regulatory practices on competition in these particular industries.⁷⁶

In particular we believe that the 1950 amendment to section 7 of the Clayton Act, closing the loophole as to mergers through acquisition of assets, should be extended to apply to bank mergers and that the Antitrust Division of the Department of Justice should continue to have jurisdiction over enforcement of the act as to bank mergers.

Further, we believe that the Bank Holding Company Act of 1956 should be strengthened to encourage the continuation and growth of our historic system of independent, locally owned banks. Before they approve a bank holding company's acquisition of stock in a bank, the Board of Governors of the Federal Reserve System should be required to determine whether the laws of the State affirmatively permit such an acquisition.

The purpose of both of these recommendations is to gain a greater diffusion of financial power and to reduce any further concentration of it.

6. This committee will hold further hearings to determine in what further ways the competitive structure of our economy can be strengthened by antimonopoly and other measures.

Some have proposed that the antitrust laws should be applied to labor unions as well as to producers. The exercise of market power by strong unions has contributed in some degree to the inflation of recent years. But the characteristics of the labor market are such that the solution is not to be found in the antitrust laws.⁷⁷

⁷³ See testimony of Robert Bicks, Hearings, pp. 2089-2090 and 2093.

⁷⁴ Mr. Patman dissents. See his views, pt. 5.

⁷⁵ See testimony of Robert Bicks, Hearings, p. 2089.

⁷⁶ For discussion of this issue see Hearings, testimony of Hyman Minsky, p. 2208, and Abba Lerner, p. 2265.

⁷⁷ See Hearings, testimony of Robert Gordon, p. 2964, Charles Killingsworth, p. 2628, Martin Segal, p. 2639, John Dunlop, p. 2751, and Robert Bicks, pp. 2112, 2113.

The basic difficulty is that if the antitrust laws are applied to the labor market this would strike at the existence of unionism itself. The very reason for the existence of unions and of our public policy toward them is to limit the forces of competition so that the unrestrained forces of a free competitive labor market will not place the individual worker at a grave disadvantage relative to the employer. Therefore, the phrase "application of the antitrust laws to labor unions" cannot be construed literally to mean that any restraints on competition will be unlawful, since this is equivalent to saying that unions as such will be unlawful.

But if this is not what is meant, then it is necessary to specify in some detail those particular aspects of union policy which will be considered a violation of the antitrust laws. In this area, two specific suggestions have often been made—(1) to make industrywide bargaining unlawful, and (2) to make national union participation in bargaining unlawful.

Industrywide bargaining refers to situations in which negotiations are carried on at one time for all or most of the firms and employees within an industry. In fact, there are very few industries in the United States where this type of bargaining actually occurs—railroads, steel, and coal are the major ones. In the great majority of industries, bargaining is carried on between one company and representatives of the local and the national union. There is no evidence to suggest that this latter type of bargaining results in any lower settlements than where industry bargaining occurs; in fact, most industrywide bargaining has developed as a device to strengthen the bargaining position of the employer rather than of the union. The elimination of industrywide bargaining, therefore, would have little or no effect on the problem of market power.⁷⁸

The restriction or elimination of the role of the national union in bargaining is much more far reaching.⁷⁹ This approach is based on the premise that it is the power of the national union which creates the upward pressure on wages, that local union bargaining would result in less inflationary pressure.

There is little evidence to support this premise. In fact, national union officers are frequently more likely to ask for moderate increases, since they can take a broader point of view.

We do not believe, therefore, that the antitrust approach is a desirable one for dealing with the labor market. It may well be, nevertheless, that the establishment of more competitive product markets would have favorable indirect effects on wage pressures as well.⁸⁰ Thus, if stronger competitive conditions and lowered profit margins could be achieved by a stronger antitrust approach, it is not unlikely that wage increases would also be dampened. In any case, if additional legislation is felt to be necessary in the labor market, it should be considered outside the framework of antitrust legislation.

Reduction of tariffs

An increase in competition from abroad can be and often has been a healthy stimulus to American producers to modernize their technology, increase their efficiency, and hold down their costs and prices.

⁷⁸ Numerous witnesses testified against banning industrywide bargaining. For their specific positions see Hearings, testimony of witnesses Slichter, p. 9; Hildebrand, pp. 2531 and 2542; Ornati, p. 2549; Ulman, pp. 2538-2559 and 2563; Gordon, p. 2964; Segal, pp. 2642-2643; and Dunlop, pp. 2752-2753.

⁷⁹ See testimony of John Dunlop, pp. 2739-2740.

⁸⁰ See testimony of Edward Budd, p. 2517; Lloyd Ulman, pp. 2560, 2563; Martin Segal, pp. 2535-2537; and Charles Killingsworth, p. 2630.

In recent years, it has probably been the most effective restraint on the exercise of market power in several industries. We therefore recommend that as part of a policy of curbing market power in our economy, we should continue to reduce tariffs.

In so doing, however, we recognize that too rapid reductions may create serious problems of readjustment for some industries and labor groups. These problems can be reduced by cutting tariffs gradually. Where necessary, other devices to ease the shift of resources into more productive industries should be used.

As the benefits from reduced tariffs and freer trade go to the consumer and society, the burden of adjustment should be borne by society and not entirely by the individual firm or worker.

Patents

Our patent system has provided a great stimulus to private inventors and to the conduct of research by private companies. At the same time, it has been used as a means of restricting the introduction of new products and processes and for arranging the sharing of markets and for fixing prices.

We recommend that the patent laws be strengthened, to assure that the patent system becomes a more effective incentive for technological progress, without being a means for restrictive practices. A system of leasing patents upon the payment of a royalty, which would protect the inventor but provide for their freer use, may be an appropriate method to do this.⁸¹

Voluntary restraint

Another way to deal with the inflationary effects of market power is to try to make large industries and unions exercise their power with restraint.⁸²

A specific proposal in this area is for the Government to bring together, in an annual labor-management conference, the leaders of both of these groups so that they could be given the general economic outlook and informed of the relation of their actions to the national economic welfare. Such a conference could result in a useful exchange of views between business, labor, and Government officials. Over the long run, it might have a good effect on prices and wages in important industries. Because of this, we recommend that such an annual conference be started.

If voluntary restraint is to be effective, it must not only include restraint in raising prices or wages, but there should be price reductions when economic conditions are favorable. Experience suggests that high profit levels which develop during the upswing of the boom create pressures for substantial wage increases. If at this point in the cycle, lower unit costs were translated into lower prices, the inflationary pressures in both the product and labor markets would be reduced.

Government participation in key price-wage decisions

While we recognize the difficulties and dangers of, and share the presumption against, Government participation in the price-wage setting process, there is a need, at least on a standby basis, for a fact-finding procedure in key price, and associated wage, increases which

⁸¹ Mr. Patman believes more needs to be said on this subject. See his views, pt. 5.

⁸² See Hearings, testimony of John Dunlop, p. 2744, and of Robert Gordon, p. 2961.

seriously threaten economic stability, to be invoked at the discretion of the President, and to result in the issuance of a report and recommendations regarding the justification and desirability of such proposed increases.⁸³

The problem of national emergency disputes between labor and management also needs further attention in the future. Whatever emergency legislation is adopted, it must be clearly specified that stability of the price level is one criterion to be applied.

Other changes to improve the structure of the economy

There are several other areas in which more positive government policies would help in stimulating growth while maintaining a high level of employment and a stable price level. Among the most important of these are the following:

1. A program of assistance to chronically depressed areas should be started. Both technical and long-term financial aid will be required to help these areas to become self-sustaining and to help themselves. Where necessary, retraining of workers should be undertaken, particularly where the long-term outlook for an area is poor.

2. The activities of the various State employment agencies should be coordinated into an effective national system in which information about job opportunities and available workers will be provided to both employers and workers throughout the country. In addition, the financial burden of unemployment should be reduced by encouraging a more liberal system of unemployment insurance, particularly for workers in chronic labor surplus areas.

3. The introduction of technological change can be eased by reducing the social costs of any resulting unemployment and by spreading these costs in a fairer way. The most effective step is to maintain a high general level of employment, so that displaced workers can find other jobs within a short period of time. In addition, however, special provision should be made in our unemployment compensation system for workers laid off by technological change.

4. Besides general policies designed to strengthen the forces of competition, special programs to promote small business must be continued and improved. Small business has brought many innovations to the American economy. The Federal Government must see that capital is available to small business, and should help to protect it against predatory practices.

5. Uneconomic production activities, which are able to continue only through Federal subsidies, should be gradually curtailed. This would free these resources for more productive uses.

⁸³ For a discussion of factfinding procedures, see hearings, testimony of witnesses, Musgrave, pp. 2768-2770; Heller, p. 2998; Segal, p. 2639; Lanzillotti, p. 2262; and Lerner, p. 2265.

VII. THE FARM PROBLEM⁸⁴

During World War II and for 7 years following it, farm prices and farm income in the United States were generally at high and adequate levels. There were a variety of reasons for this, including the high level of postwar demand, the shortages in other parts of the world, as well as the demand accompanying the Korean conflict. Even with high parity support prices for the basic crops and somewhat lower support prices for the nonbasics, neither the expense of the farm program nor the surpluses were major problems. When farmers received 100 percent of parity in the marketplace, as they did in every year through 1952, the Government was not obligated to purchase large amounts of farm production at the 90 percent support level.

Following the end of the Korean war and the recovery abroad, the farm problem not only worsened but became a crisis in our economic affairs. The parity ratio has dropped from 100 to 77, or by 23 percent since 1952. Net farm income is down from \$15.3 billion in 1952 to \$10.3 billion in the third quarter of 1959, or by 32 percent. In addition, loans and inventories of surplus commodities held by the CCC have increased from \$2.45 billion in December of 1952 to a level of \$9.6 billion as of November 30, 1959, and the outlook is that they will increase considerably in the near future.

In addition to this, net income per farm has dropped from slightly over \$3,000 in 1952 to a level of \$2,220 as of the third quarter of 1959. Even though there are now some 800,000 fewer farms than in 1952, the net income per farm of the remaining 4.6 million farms is 26 percent below 1952.

In the meantime, the expenses of the Department of Agriculture, including CCC payments, have been above \$6 billion in this and the preceding fiscal year.

Perhaps the most telling fact is that of the \$10.3 billion of net farm income in the third quarter of 1959, some \$3.4 billion of this amount are the noncash items, imputed value of on-farm consumption, and the gross rental value of farm dwellings. This means that only \$7 billion of net farm income is in the form of cash income.

The prospects for next year are that farm income will again fall somewhat and that the surpluses and their cost will increase. We may be in a position where the budget for the Department of Agriculture will be as great next year as the total amount of cash income received by farmers in the entire country. This, indeed, is a most serious situation.

In addition, as has been well documented, the bulk of agricultural subsidies go to those larger commercial farms which need them least of all and in smaller part to the average commercial farm family which needs them most.

⁸⁴ See "Policy for Commercial Agriculture: Its Relationship to Economic Growth and Stability," report of Joint Economic Committee's Subcommittee on Agricultural Policy, February 1958.

Program for commercial agriculture

Let us first state some general principles concerning the farm problem. The farmer suffers from inelastic demand. When all farmers are taken into account, a decrease in price of, say 10 percent will bring an increase in demand of only about one-third that amount, or 3 percent. Another way of saying the same thing is that if total output of farm products is increased by say 5 percent, the price per unit will fall by much more than 5 percent—by 10, 15, and in some cases, by 20 percent. The result is that total farm income will be reduced as output increases. Thus, as prices decline and supplies increase, farmers as a group are in the situation where they receive a smaller total for greater production.

It is for this reason that programs aimed at a completely free market, or which are designed to increase farm income by lowering prices, will not work.

Secondly, a farm program should be aimed at both increasing farm income and reducing the costs of the Government programs. The public will not long endure the costs of present programs and they give no appearance of materially aiding most farmers.

Thirdly, poverty on the farm and the noncommercial farms should be treated as a separate problem.

What then can be done?⁸⁵

To begin with, the program which now applies to corn and to feed grains, and which is being recommended for wheat, cannot be justified. Under the present corn and feed grain program, the Government agrees to buy all the production which the farmer wishes to sell at a relatively low price. No production or acreage controls of any kind are applied. The effect has been greater production and greater costs to the Treasury. Corn and feed grains now held by the CCC are greater in amount than any other single commodity including wheat. A program of price supports without production controls of any kind is irresponsible.

Second, if the large farmers want no controls or price supports, as they advocate, then let us have a program where they are allowed to produce for the market, to sell at the prices which they receive in the market.

Let us then use a portion of the funds which now go in the main to the larger farms to promote and protect the full-time family-sized farm. In doing so, however, let us apply certain principles which would limit the cost. Among them we believe that the most serious consideration should be given to the following:

1. If we are to limit production—and some production limitations are necessary—let us do so on a bushel or unit basis rather than on a basis of acreage. Acreage limitations have the defect that farmers put their best land in production, let their poorer lands lie idle, and by pouring on more fertilizer and cultivating more intensely, they produce more on fewer acres.

⁸⁵ Mr. COFFIN. My reluctance to endorse the majority's recommendations regarding agricultural policies is based on the fact that this field has not been subjected to the same kind of intensive and sustained scrutiny as have the other sectors of the economy. Ch. 7 of the able "Staff Report" acknowledges frankly (p. 189) that "this study engaged in no large-scale primary research on the problems of agriculture." It further says that since the 1957 hearings conducted by the Subcommittee on Agricultural Policy of this committee, " * * * there have been few new developments." It is with this gap in our systematic research in mind that I called for a comprehensive study of agricultural economic data and alternative policies by introducing H. Res. 291 in June 1959. My reasons for this resolution and its text are set forth on pp. 9433-9434 of the Congressional Record for June 10, 1959. Until such a study is made, there is, in my opinion, little chance of developing an informed consensus based on authoritative data. And, until then, there is small chance of implementing the required policies.

2. Let us support farm income rather than farm prices through a system of production payments but with dollar limits on such payments. The difference between market price and a given percentage of parity—say, 85 percent—would be met by a direct subsidy. But let us limit the bushels or amount of such production which can qualify for payments as well as the total amount of such payments to any one farm or farmer.

While there should be some variation between regions of the country and crops involved, a limitation in the amount of \$2,000 a year for any one farm or farmer would have the effect of both decreasing substantially the total amount which is now paid as a subsidy and of increasing farm income for those full-time farmers with family-sized farms.

Such a program need not be an incentive to indolence or idleness for while Government subsidies would be limited the farmer would still be free to market that part of his production which was in excess of the bushels or amount supported.

Such a program would have the additional advantage that the consumer and taxpayer would not be taxed as much as at present for the farm program and, in addition, make a second payment in terms of higher prices for his food, as is now the case.

As such a program would not add materially to existing surpluses, there would be an opportunity to reduce the existing stockpile through programs to help those in need both home and abroad.

3. To deal with the low income problem in agriculture, a rural development program should be stepped up to a size equal to the problem. Other constructive programs are now already embodied in legislation dealing with depressed areas.

4. The retirement of some land now being farmed in good faith—under appropriate programs—can contribute to the solution of the problem of overproduction.

5. Greater emphasis needs to be placed on research for finding new uses for farm products which would increase the demand for them.

VIII. AMERICA'S CHANGING POSITION IN THE WORLD ECONOMY⁵⁶

In the last 2 years, the United States has become acutely aware of a host of new problems about our economic position in relation to the rest of the world. The very large balance of payments deficits of the last 2 years and the gold transfer, which became more substantial in 1958, have led this committee to reexamine the American position. Our major conclusions are the following:

The American position remains very strong, but we must pay more attention to our balance of payments. We cannot afford to continue to run deficits of the recent size indefinitely.

The outflow of gold has moderated in 1959. This reflects continued foreign confidence in the dollar as an international currency. But the rising claims of foreigners against us, in the form of short-term dollar balances, are exceeding the levels that they might reasonably desire to hold for the purpose of international liquidity. These balances, if they continue to rise, will increasingly limit our freedom of action to pursue economic policies which promote domestic economic welfare. Particularly in the event of recession, monetary policy will not be able to loosen credit to the extent that it has in the past, for fear of withdrawal of these balances as our interest rates fall. The deterioration in our own balance of payments corresponds to an improvement of the balance of payments of Western Europe. An enormous increase in the international reserves of Western Europe are the counterpart to our deficits. The rest of the world has gained very little in the process.

The causes of the balance of payments deficit

The United States has been running a balance of payments deficit in every year since 1950, except 1957, ranging from a deficit of one-half billion to 2 billion in 1951, 1952, 1954, 1955 and 1956, and to a deficit between \$3 and \$4 billion in 1950, 1958, and 1959. There is no simple single explanation of our balance of payments deficit.

1. The competitive position of American exports has deteriorated, but primarily because of the increasing availability of goods from other countries. The American price level has risen less than that of most of our competitors but where a few years ago other industrial countries were unable to supply large quantities of goods, today they have resumed their traditional role as exporters. This is partly due to the success of American foreign aid programs in the years after World War II which permitted these countries to recover their economic strength. Thus, our present balance of payments difficulties in part represent the success of our foreign aid programs.

In some specific items, particularly steel, rising American prices have reduced our export competitiveness but these are the exceptions rather than the rule.

⁵⁶ See the forthcoming Study Paper No. 16, "International Effects of U.S. Economic Policy," by Edward M. Bernstein

2. The American share of industrial exports to third markets outside the industrial countries has declined only by a very small amount. However, the markets in the nonindustrialized countries represented a declining share of world markets, and have shown no absolute increase since 1956. While our ability to hold our share of the market in third countries attests to the competitiveness of our exports, our share in world trade declined because of a decline in our share in the imports of the industrial nations.

3. The balance of payments decline of the last 2 years is partly a cyclical phenomenon. The American recession, which occurred somewhat earlier than recession abroad, had some effects both on the balance of goods and services and on the balance on private capital account.

4. Outflows of private business capital have risen considerably, more recently in the form of investment in foreign securities. However, our earnings on investments abroad have also increased, and the net effect of private capital movements on our balance of payments in the long run is not unfavorable. In the short run, particularly in the last 3 to 4 years when the very large revival of foreign investment occurred, it did add to the strains on our balance of payments.

5. Rising government expenditures abroad have contributed substantially to the balance of payments deficit, and explain a considerable part of the large deficit this year. The greater part of these expenditures were for defense of ourselves and our allies. While these expenditures go to many countries, including large amounts to the Far East, 57 percent of the total of about \$6 billion in 1958 went to Western Europe. Economic aid, which was about \$2.2 billion in 1958 under the several programs, now goes mostly to underdeveloped countries. The outlays of other industrial countries for economic aid are still very small.

Recommendations

In the light of these findings and of the longrun objectives of American foreign economic policy, we make the following recommendations:

1. The present situation does not call for emergency measures. The United States can continue to make the resources available to other countries which are deemed appropriate for the accomplishment of the objectives of foreign policy.

2. The economic position of Western Europe has vastly improved in recent years. Their output has grown at a high rate and they have increased their holdings of international reserves to very high levels. Western Europe must devote more funds to its own defense, and to aid in the economic development of underdeveloped countries. The patterns set in 1951 are no longer appropriate in the present circumstances.

Greater use should be made of existing international institutions and new institutional arrangements should be devised which will encourage and coordinate the aid programs of the free industrial countries. The OEEC could be the appropriate organization for making such an effort.

3. The United States must halt the drift into a position in which the management of our domestic economic affairs becomes ever more dependent on balance of payments considerations. To halt this drift, the United States must promote the measures listed here which would

improve our balance of payments, and which would halt the increase of foreign claims beyond levels necessary to facilitate world trade. Also, serious study should be devoted to improved institutional arrangements which would improve the system of world liquidity. It is in our interest to let the dollar play the role of a world currency. But the United States cannot be the major source of the necessary additions to world monetary reserves. An excessive growth in our foreign dollar liabilities, not offset by an increase in our own gold reserves, could lead to serious difficulties in times of adverse political and economic conditions.

4. Now that most of the continental countries of Western Europe have more than adequate international reserves, the justification for discriminations against dollar imports, particularly in the form of quotas, has disappeared. These discriminations should continue to be removed at a rapid rate.

5. The United States should maintain its policy of striving for a system of multilateral world trade, without restrictions and discriminations. We should reduce our own tariffs in exchange for tariff concessions from other countries. We should also use our influence and leadership to encourage the newly emerging regional economic blocks to become means of trade liberalization rather than discrimination.

NOTE.—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.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE WRIGHT PATMAN

The committee's report says many things with which I agree so heartily that it is difficult to refrain from repeating them—just for emphasis. However, I will not repeat.

On the other hand, the committee's report reaches several conclusions and recommendations with which I disagree either completely or so substantially as to warrant supplemental views. My major points of disagreement are as follows:

1. OBJECTIONS TO MONETARY POLICIES

The committee's report recommends that to achieve the objectives of the Employment Act of 1946, our national public policy will have to place "[g]reater reliance on fiscal policies and less reliance on monetary policies * * *," stating that under the Nation's present policies "we would have to choose between growth equal to our potential, on the one hand, or price level stability, on the other."

On the facts, I cannot avoid the conclusion that the tight-money and high-interest policies have been a principle cause both of increasing prices over the past 7 years as well as a cause of the Nation's substandard rate of economic growth in these years, and I would place no reliance whatever on monetary controls. In other words, these policies do not give us a choice between two evils but an abundance of both evils.

The effects of the tight-money and high-interest policies are clear enough. They have retarded economic growth, retarded construction of schools, homes, roads, and other community facilities, squeezed out small business, weakened the competitive structure of the economy and changed the income distribution in favor of the financial elite. But it is difficult to find anything that these policies have accomplished on the constructive side. Certainly they have not stopped inflation and there is more evidence that they have been a principal cause of the price increases of the past several years rather than a deterrent to price increases.

As I understand it, the official monetary theory is to this effect: When one economic group increases its income more than it increases its contribution to the economy, either of two things must happen: (1) The increased income must come out of the economic hides of another group or groups; or (2) if the Federal Reserve permits an increase in the money supply sufficient to pay the increased income, the result is inflation. It is thus that congressional committees and other public bodies have labored countless hours examining statistical minutiae, trying to determine whether wages and other monetary benefits of one labor group or another have increased more than the group's productivity. Money lenders' wage rates (interest rates) and incomes have increased far beyond anything imaginable by labor. Personal income alone from interest has approximately doubled since

1952, having increased from \$12 billion in 1952 to a current rate of \$23.5 billion per year, which is now about 2½ times the total farm income of the country. And these figures do not reflect the even greater increases in interest income of the banks, insurance companies and other financial corporations, which income finally appears in stock dividends, increased officer compensation, and increased corporate assets.

This diversion of income through high interest benefits the few at the expense of the many. To illustrate, United States savings bonds are doubtless the most widely held of all the interest-paying assets. Yet a Federal Reserve survey made early last year indicates that 74 percent of the American families own none of these savings bonds and only 5 percent of the families own 87 percent of the whole \$42.5 billion outstanding. No one has bothered to try to determine whether the wealthy families who have money to lend, the commercial banks that create money, and all of the financial institutions which manage and lend other people's money have increased their productivity in the money creating and lending functions in any way commensurate with their increased incomes. But the answer seems obvious. The steadily mounting interest incomes have come out of the economic hides of other groups.

Under more ideal conditions for formulating and administering money and interest-rate policies, I would agree that these policies should be used, in a coordinated way, with the Government's other policies. But present conditions are far from ideal.

To illustrate, the committee's report tells us that the greatest impact of the high-interest and tight-money policies has been on housing. If this is true, then manifestly Federal Reserve's policies have been at loggerheads with a policy determined by constitutional means. Congress has passed bills, and the President has signed bills, intended to increase homebuilding, while the Federal Reserve has followed policies which, intended or not, have discouraged homebuilding. The same point could be made with reference to small business. The Congress has passed and the President has signed bills intended to make more credit available to small business, while the Federal Reserve has followed policies which have substantially eliminated the credit available to small business.^{86a}

The conditions are not ideal in other respects.

While the present Federal Reserve authorities have been quite determined in their course, it seems to me they are, at the same time, too remote from the economic system which they try to regulate. They have been willing to pursue headlong the course of squeezing credit and raising interest rates with seemingly only the vaguest notions either about the effect of their actions or about the economic system they try to regulate.

Coordination of policies would require that Congress at least be made privy to the Federal Reserve's policies as well as to the facts of its methods of pursuing its policies. On both points Federal Reserve spokesmen have been less than candid with Congress and with the general public, disclaiming at times that they have anything to do with matters about which they have all to do. In periods when interest

^{86a} The Federal Reserve was finally prevailed upon to make a survey to see what happened to bank loans to business firms as between October 1955 (an easy credit period) and October 1957 (a very tight credit period). Small firms with less than \$50,000 of assets had 3 percent less bank credit in the latter period, and the corporate giants with more than \$100 million of assets had 66 percent more bank credit. And in between these extremes the various sizes of firms fared disproportionately according to their size.

rates are being raised, these spokesmen are given to making such statements as the Federal Reserve is "simply following the market" and otherwise suggesting that the events of the day are natural phenomena over which the Federal Reserve has no influence or control. Only in recession periods, when interest rates are being lowered do these spokesmen take credit for actions which reveal that credit availability and interest rates are, after all, products of their decisions.

The Federal Reserve's record of calling the turns in the tides of business affairs has not been good, though in fairness we cannot blame them for bad economic forecasting. The forecasting art is uncertain at best, and the statistics of economic developments arrive long after the event. Nor can we blame the forecasters for leaning in the direction of their biases when in doubt. It would be foolhardy to overlook the nature of their biases, however, particularly when these biases are so pronounced as to blind the forecasters to the facts even after the facts become available.

The persistent and pronounced bias of the present Federal Reserve authorities has been in favor of the financial elite, in favor of high interest for the sake of high interest, in favor of the banking business it is supposed to regulate, and not always equally solicitous of the small banks at that.

The committee's report expresses a view that the Federal Reserve system can not be blamed for the failure of other governmental policies during the past several years. Yet a realistic appraisal of the history of these years can leave no doubt, I think, that the Federal Reserve authorities must, indeed, share a large part of the blame for the failure of other governmental policies. Never has any patented nostrum been more oversold than "monetary controls." The Federal Reserve authorities have been part and parcel of the crusade to sell the idea that monetary controls would provide a magical solution to all of our problems, and the public has been lulled into the belief that hard decisions of Government could be avoided. Indeed, these authorities have been part and parcel of a kind of religious warfare to force mass conversions to the faith, and all who have dared even to raise questions concerning the specifics of their nostrum have been branded "inflationists"—or worse.

Under the present organization and management of this Nation's central bank, I would place no reliance whatever on monetary policies. The Federal Reserve System should be brought back into the Government from whence it has seceded, so that its economic policies may be coordinated with economic policies arrived at by constitutional means and so, too, that some branch of the Government—the executive or the Congress—will have political responsibility for its political decisions. Furthermore, there is a crying need for reform within the system. The powers and duties for determining this Nation's credit and interest-rate policies now reside with the Federal Open Market Committee, which is made up of a mixture of publicly appointed members and elected representatives of the private banks. The powers and duties of the Federal Open Market Committee should be placed in the hands of a board of public members.

It is my view that until these fundamental reforms are made, Congress should, at the beginning of each year, pass legislation specifying the rate at which the Nation's money supply shall be increased during the year.

2. NEEDED: A CEILING ON GOVERNMENT BOND YIELDS

The Committee's report recommends that the Nation's money supply should be permitted to increase at the same rate at which economic activity (as measured by the gross national product) increases. With this I fully agree. It is a generally accepted proposition that a lesser rate of growth in the money supply retards economic growth and a greater rate of expansion results in inflation.

Further, the Committee's report finds that since the Treasury-Federal Reserve "accord" of February 1951, Federal Reserve policies, "particularly since 1953, have brought interest rates to levels higher than they should or need be." Strangely, however, the Committee's report repeatedly recommends against returning to any ceiling on Government bond yields—a policy called "bond pegging." This recommendation seems to flow from the belief that "when the bond market is pegged at low interest rates by the Federal Reserve, it loses control of the money supply and excessive amounts of money and credit are likely to be fed into the banking system . . .," adding what purports to be an historical fact:

"While this policy kept interest rates low, it prevented the Federal Reserve System from carrying out its main duty to regulate credit and the money supply for the purpose of promoting stability in output and the economic growth."

Undisputed facts in the committee's record, taken from President Eisenhower's economic report, show that in the four post-World War II years immediately preceding the so-called "accord," the money supply increased by 5.6 percent while the gross national product increased, in real terms, by 12.6 percent. An increase in the money supply at less than one-half the rate of the real growth in the economy hardly accords with the Committee's theory that the Federal Reserve lost control of the money supply or with the theory which the Committee is now recommending for future policy.

Furthermore, in this 4-year period, the Federal Reserve did not make a net increase in its holdings of Government securities in order to maintain an "artificially low interest rate." It made a net reduction in its holdings of Government securities amounting to \$2.5-billion.

In the year immediately preceding the "accord" of February, 1951, the money supply was increased by 2.5 percent, while the real increase in production of goods and services was 8.7 percent, or three and one-half times the rate of increase in the money supply.

In any case, increases in the money supply in the pre-"accord" period were less, relative to real increases in the gross national product, than the Federal Reserve System has seen fit to make in the years since, when it has not been burdened with the alleged restriction on its ability to control the money supply. In the 8 years following the "accord" of 1951, the real increase in gross national product (measured in 1954 dollars) was 25 percent while the growth in the money supply was 22 percent.^{86b}

Since the inflation of the post-World War II period was manifestly not a monetary inflation, I would suggest, as an alternative theory,

^{86b} This does not mean that adequate increases in the money supply have been permitted in this period. On the contrary, once the price level has increased, a corresponding increase in the money supply is needed just to permit transactions in the same amount of goods and services. To illustrate, in 1950 the average money supply amounted to 39 percent of the gross national product; by the last quarter of 1953, the money supply had been reduced, relatively, to only about 30 percent of the gross national product.

that it resulted from the American people's postponed demands of the World War II period, their large holdings of liquid assets with which to satisfy these demands, and from the premature removal of price and other controls.

The Federal Reserve was able to maintain yields on long-term Government bonds at a maximum rate of $2\frac{1}{2}$ percent in the 4 post-war years, thus keeping all other interest rates low, while at the same time making a net reduction of \$2.5 billion in its holdings of Federal Government securities. It should maintain a ceiling of $2\frac{1}{2}$ percent on long-term Government bonds now. It should—to use a dirty word—“peg” Government bonds. A maximum rate of $2\frac{1}{2}$ percent would leave it adequate “flexibility” with which to run interest rates up and down.

3. OBJECTIONS TO CONSUMER CREDIT CONTROLS

The committee recommends legislation authorizing “standby” consumer credit controls, with which I disagree. With these “standby” controls the Federal Reserve could, at its pleasure, issue regulations setting minimum downpayments and maximum periods of payment for consumer credit extended by the commercial banks, the finance companies and others in the consumer credit field.

This recommendation does not go to the needs of the day, the needs of the recent past, or to the needs of the foreseeable future. Rather, the recent severe and prolonged periods of tight money and high interest to which the Federal Reserve has subjected consumers, farmers, small business, and homebuilders alike, have admittedly been intended only to restrain business investment, particularly in new productive capacity. If tight-money and high-interest policies were to be continued as methods of trying to regulate the economy, which I oppose, then there would be a crying need for selective credit controls, but selective controls first and foremost over business credit—both for inventory speculations and expansions of productive capacity.

The nature of the agitation for “standby” consumer credit controls which has been coming from certain sectors of the financial community since 1955—in recession periods no less than in prosperous periods—should be ample warning to the committee that once the Federal Reserve has the authority to regulate consumer credit, it will be under tremendous pressure to invoke this authority and most likely will do so. Indeed, the committee's report invites the Federal Reserve to use this authority, once it has been granted, on no particular justification: “From time to time the use of standby regulations may be helpful.”

This drive for consumer credit controls has all the earmarks of the drive which ended, in 1935, with the enactment of the law which prohibits the commercial banks from paying depositors interest on demand deposits. What could not be done by private means was done by law. Competition between and among the commercial banks for the public's deposit patronage was stopped.

Competition between and among the commercial banks, the finance companies, the savings and loan associations, and others in the consumer credit field is largely in the variety of arrangements which these various types of financial institutions offer the consumer as to downpayments and periods of payment. And those institutions which cannot meet the more generous terms as to downpayments and payment

periods usually must try to entice the consumer with lower interest rates. If we eliminate competition in these services, then elimination of competition in interest rates is almost sure to follow.

While the committee's recommendation would seem to provide a means of restraining consumer purchases when consumer demand is too high, it provides no means for stimulating consumer demand when it is too low, which is the more usual state of affairs. Consequently, if the committee's recommendation is accepted, it should be amended to require that the Federal Reserve specify the maximum interest rate consumers may be charged. Such a requirement would also substitute a consumer safeguard for that which competition now tends to provide.

4. REDISCOUNTING

The committee's report recommends that the Federal Reserve banks "should do away with rediscounting as a general practice" and that the practice "should be allowed only when a member bank is in serious difficulty". The committee's criticisms of "rediscounting" go not just to "rediscounting" as such, which has been negligible, but to all extensions of credit by the regional Federal Reserve banks to the member banks. In fact, the committee emphasizes that the proper way for the Federal Reserve System to extend or reduce member bank credit is through open market operations—that is, by buying or selling Government securities. While I heartily agree with a related recommendation which the committee makes, namely that the Federal Reserve should acquire more Government securities as the way of increasing bank credit, rather than to reduce reserve requirements of the member banks, I do not agree with the conclusion that direct extensions of credit by the regional banks is improper or undesirable.

On the contrary, there are two reasons why the Federal Reserve banks should have flexibility in this respect. First, the levels of economic activity in the various regions of the country are not always the same as for the country as a whole. Indeed, it frequently happens that when the national barometers show high economic activity and high employment, individual regions may be suffering from unemployment and slack demand. Second, the alternative method which the committee proposes by which the individual bank can obtain temporary reserves is to sell some of its holdings of Government securities through the professional "open market" securities dealers. These New York "open market" dealers are few in number and do not serve particularly well many of the small banks away from the metropolitan centers. And, as the committee's report points out, the "imperfections" in the so-called market which is made up of these dealers are notable.

There is no apparent reason why the amount of credit extended by the regional Federal Reserve banks cannot be fully coordinated with the policies of credit ease or restraint being executed by the New York Reserve Bank; and there is no evidence that the minor extensions of credit which have been made by the regional Reserve banks have not been so coordinated.

5. ANTITRUST PROPOSALS

The committee's report recognizes, as it must, that arbitrary price increases by great corporations having market powers to raise prices,

even in the face of falling demand, have been a principal source of the so-called inflation. Furthermore, the committee has made a number of recommendations for strengthening the Nation's historical anti-trust policy which condemns control over markets. However, I do not believe that the steps which the committee recommends go far enough, and in the case of one recommendation, I disagree.

I disagree with the proposal that legislation be enacted giving the Assistant Attorney General in charge of antitrust subpoena powers in investigations of civil violations of the Sherman Antitrust Act. I do not believe that such a step is necessary and it proposes a dangerous principle and a dangerous precedent. To give an officer of the executive branch of the Government powers to bypass the grand jury would in effect bypass a fundamental constitutional safeguard.

In addition to the other specific recommendations which the committee makes, and with which I agree, I urge the adoption of several other well-known proposals for strengthening the antitrust laws as follows:

(1) Legislation to safeguard against abuses in the practice of the enforcement agencies in settling cases of antitrust law violations by consent decrees and consent settlements which legislation should include:

a. A requirement that the enforcement agencies make public the terms of any proposed consent decree or settlement for a specific period of time before it is accepted and give interested parties who may be injured by the proposed decree or settlement an opportunity to protest.

b. That the court in which any consent decree or settlement is accepted be required to write an opinion setting forth the practices or conditions which have violated the antitrust law and the meaning of the consent decree or settlement.

c. That the court be given discretionary power for determining that the evidence and record of the case may be used as prima facie evidence of the violation of the antitrust law in damage suits brought by private parties who may have been injured by the violation.

(2) That the anti-price-discrimination law be strengthened so as to make competition in the marketplace less a contest of market power and more a competition of efficiency and thus give small business firms a reasonably equal opportunity to compete.

(3) That section 1 of the Clayton Antitrust Act be amended to encompass within the term "antitrust laws" section 3 of the Robinson-Patman Act.

(4) Finally, I believe that the committee should make a full study of the practices being followed by the Federal agencies in distributing funds to business firms for research, experimentation, and technological development, as well as the policies being followed with reference to the acquisition and control of patents on inventions made at public expense.

The Federal Government is now paying the lion's share of the bill for all scientific, industrial, and other research and experimentation being done in the Nation; and the total of all spending for such purposes has increased enormously within the past few years.

Last year the Department of Defense alone distributed almost \$5 billion of Federal funds for these purposes. Of this huge amount, 92 percent went to only 100 organizations; 96 percent went to the 200 largest recipients of such funds; and 99.4 percent went to only 500 organizations. These funds, which are handed out on a cost-plus-a-guaranteed-profit basis, not to be repaid, amounted to 633 times all the Federal funds which have been lent, with repayment expected, to small business investment companies during the year and a half that this latter program has been in operation. Further, the Department of Defense allows private firms making patentable inventions through Government-paid research to acquire and control the patents on these inventions. At the rate patents are pyramiding, the time may not be far away when a few giant corporations will control all the industrial technology of the day.

6. FEDERAL TAXES

The chapter of the committee's report dealing with Federal taxes sets out a number of conclusions and recommendations for changes in the tax laws which are, necessarily I think, based upon an insufficient study and consideration. Thus the committee's report recommends repealing the dividend-received credit and exclusion provision, and recommends limiting employee expense accounts, but omits any reference to stock options practices, to the widespread inequities which these practices are reputed to involve, or to the influence of these practices on the corporate pricing practices which the committee finds to have been a principal source of inflation. Similarly, the committee's report recommends reductions in depletion allowances for certain resources and is silent on depletion allowances for other resources.

More particularly the committee should, I feel, make a thorough study of the impact of Federal taxes on the competitive structure of American business. The committee has been shown without question, and fully recognizes, that in many instances giant corporations have a degree of control over markets which permits them to raise prices arbitrarily, to cover increased costs or to increase profits. It would follow then that corporations enjoying such freedom from the restraints of competition may also increase prices to shift the burden of the corporate income tax onto consumers, their suppliers, or others. Business firms that are more competitively situated manifestly cannot do this. The consequence would seem to be, therefore, that those corporations already enjoying great market powers are able to raise and accumulate capital for expansion and growth while the smaller business firms, as a rule, are having their growth capital taxed away. It could well be that competition, which the committee now finds insufficient to safeguard against arbitrary price increases, will within a short time disappear completely.

7. GOVERNMENT SECURITIES MARKET SHOULD BE PUT UNDER PUBLIC REGULATION

While the committee's report recognizes that there are serious competitive "imperfections" in the Government securities market, its recommendations for correcting these imperfections fall far short of the needs.

This "market" involves only 17 so-called "open market" dealers, at New York. The volume of trading carried on by these dealers in Government securities amounts to an estimated \$200 billion a year, which is several times the volume of trading in all the stock exchanges and commodity markets of the country. It can hardly be called a "market." It is more a private club, and it is under no regulation whatever except whatever self-imposed regulation these dealers may enjoy.

The only notable self-imposed regulation which the committee's investigation brought out is that these dealers operate a "put and take" system such as is prohibited in organized security exchanges by the Securities and Exchange Act. In other words, according to this system, the dealers have agreed among themselves that one may telephone another and ask his bid and offer price, in which event the calling dealer may require his rival either to sell him, or to purchase from him, a predetermined quantity of the securities in question. The manager of the Federal Reserve's open market account was asked about effects of this system and he replied that it tends to force all the dealers to have uniform prices.

Another interesting aspect of the so-called "market" is that all of these open market dealers have direct telephone lines between and among themselves. In other words, they are all on a sort of "party line." It is interesting that under these circumstances the Federal Reserve Bank of New York trades in Government securities with these dealers—to the extent of \$5 to \$10 billion per year—it is said, on the basis of competition between and among them and the "best prices" they either bid or offer to the Federal Reserve Bank, as the case may be. This trading is by telephone and we must presume that when the bid and offer prices are being made by telephone, each dealer refrains from listening in on his "party line."

Perhaps the most remarkable aspect of the so-called Government securities "market" is that which takes place in the case of new issues of Government securities purchased directly from the Treasury. These dealers, plus a few large banks, insurance companies, and other financial houses which customarily buy substantially all of the Treasury issues, all know in advance what the total amount of the subscriptions will be on any given issue. Treasury issues are typically oversubscribed anywhere from 1 to 12 times. In other words, the total offers to purchase a given quantity of the Treasury issue may run as high as 12 times the amount of the security that the Treasury is offering. On each occasion there is a common estimate as to what the amount of oversubscription will be, and each subscriber bids accordingly. In other words, if the understanding is that the total subscription to be made by all investors in the United States is to be 12 times the amount of the security the Treasury is offering, then each of these dealers, banks, and insurance companies, subscribes 12 times the amount of the security each actually expects to purchase. Thus the dealer wishing to purchase \$1 billion of a security will tender a subscription for \$12 billion, and make a downpayment to back up his subscription. If the oversubscription turns out to be 12 to 1, then the Treasury will allot him the \$1 billion worth which he expected to buy in the first place. Testimony of the dealers and others reveals that each has a striking degree of confidence in these advance esti-

mates of the oversubscription. Testimony indicated that should these estimates prove wrong and should these big subscribers thus be allotted substantially more of a security than they actually expected to receive, they would be more than a little financially embarrassed.

The so-called "Government securities market" should be put under public regulation.

8. BANK RESERVE SHOULD BE INCREASED

The committee's report takes a firm view that reserve requirements of member banks should be maintained generally at their present levels. And as a counterpart to this view, the committee's report also recommends that when the Federal Reserve System brings about expansions of money and credit in the banking system, it should do so by acquiring Government securities in the open market. In other words, the committee's view is that the Government's money-creating powers should be divided, beneficially, between the Federal Reserve System and the private banks as at present. The advantage to the general public of the Federal Reserve's acquiring more Government securities is, of course, that the interest payments on these securities will be returned to the U.S. Treasury, whereas when the private banks acquire more Government securities, the interest payments go into bank profits.

It seems to me, however, that the committee's recommendation does not go far enough. It would not restore to the public the Government securities which the Federal Reserve System has given away from the vaults of the Federal Reserve banks in the course of its successive reductions in reserve requirements since 1951. There should be a restoration of reserve requirements and a return of these assets to the Federal Reserve System. This restoration should take place as rapidly and to the extent that profits of the private banks are not reduced below an adequate level to encourage the banks to provide their necessary function.

The committee's record now makes these points clear: Bank reserves which the member banks have to their credit on the books of the Federal Reserve banks have not been created by deposits of the banks' funds or their depositors' funds. They have been created by the Federal Reserve System itself, without cost to the private banks. In the years when the Federal Reserve System was being organized, 1914-17, member banks deposited a maximum of \$1.5 billion of their own funds and their depositors' funds to their reserve accounts with the Federal Reserve banks. Since 1917, the Federal Reserve System has itself created the reserves credited to the member banks' accounts, and has created an amount of reserves sufficient to permit the member banks to draw out \$28 billion in currency, at no cost to themselves, and still have left approximately \$18 billion of reserves as of today.

There has been no justification for the enormous increases in bank profits. In the years when interest rates have been highest, the demand for investment funds has been a lesser percentage of the national income than in 1952 and 1953, when interest rates were low; and the American people have saved no greater percentages of their income when interest rates were high. The Nation has simply paid a bigger bill for the same amount of savings and for the same amount of financial management of the people's money.

MINORITY VIEWS

INTRODUCTION

The minority wish they could join in a unanimous report, leaving it to individuals to file such supplemental views as they might feel necessary and proper; but the character of the majority report compels us to make a separate statement to register both dissent and agreement and to make clear where we differ in approach, philosophy, and in interpretation of the evidence.

Because of the exceedingly brief time allowed us to study the majority report and prepare our statement, and because of the shortcomings of the staff report, we are forced to be brief and cannot attempt to develop a report as affirmative and constructive in tone as we had hoped. We can only set forth what we think are some of the chief errors and limitations of the report and what we feel to be more tenable and reasonable policy positions.

Our remarks will be made under three main heads: (I) The general character and quality of the majority report; (II) a brief and necessarily selective evaluation of the findings and recommendations of the main sections of the majority report; and (III) some concluding comments.

I. GENERAL CHARACTER AND QUALITY OF THE MAJORITY REPORT

In undertaking this study of employment, growth, and price levels, the Joint Economic Committee had a magnificent opportunity—a \$200,000 opportunity—to define the issues, to identify gaps in our knowledge, to recommend agreed-on changes in public policy, to focus attention on the sources of disagreement, and to improve congressional and public understanding of the various goals of economic policy.

On the whole, the study itself was conducted in a competent and objective manner. The hearings were well balanced, and at a high level. Many of the top economists of the profession contributed freely of their time, talents, and wisdom. A literature was assembled, both in the hearings and in the special studies, which reflects credit on the committee, on its special staff, and on the economics profession. In it are found a wealth of useful data, as well as a diversity of views and policy suggestions on many points. In these rich contributions, the committee may take pride.

These standards were not, unfortunately, maintained in the committee's staff report, published last month ("Staff Report on Employment, Growth, and Price Levels," 86th Cong., 1st sess., Dec. 24, 1959). We regret to say that, in our opinion, this report does not meet high professional standards. While there is much valuable material in it, it is marred by partisanship, by opinions and assertions not supported by the evidence, and by significant inconsistencies and serious omissions. We know from working with the special study staff that the report does not do justice to their individual and collective capacities.

As a basis for sound policy recommendations, the committee needed a good staff report. Such a report would have included an objective, competent, and scholarly summary and analysis of the many magnificent papers prepared conscientiously for the committee by outstanding economists from all over the country, from all branches of economics, from all shades of political opinion, and from all types of employment which economists pursue. By summarizing, comparing, and analyzing this great wealth of material, together with the thoughtful, generally excellent, and sometimes brilliant testimony of the witnesses, the staff could have discovered areas of agreement, isolated causes of disagreement, and focused attention on major issues. Then the majority and minority reports could have made real and lasting contributions to the great debate on economic policies that should always characterize our democracy.

Now we come to the last stage of the study, the committee report itself. In spite of many sound policy recommendations in which we join, the majority report is distinctly disappointing.

Our differences are not so much differences of objectives, but differences as to means of attaining objectives, differences in analysis, differences in priorities, differences in notions of what the facts are, and differences in interpretation of facts and history. These differences were reflected in the hearings and special studies and should have been honestly and explicitly set forth in the final report. To be of maximum value, the study of employment, growth, and price levels should culminate in a candid expression of what we know, what we do not know, and what, in the light of both our knowledge and our ignorance, we should be doing to improve our knowledge and our performance.

In view of the important responsibilities of the Joint Economic Committee and its past record of economic statesmanship, and in view of the high aims and anticipations of the study on employment, growth, and price levels, we deeply regret that the majority are presenting a report that is partisan, cavalier about simple rules of logic and evidence, and disrespectful of legitimate differences of values, opinions, and judgments.

The main deficiencies of the majority report, as we see them, are as follows:

(1) *The majority report is needlessly partisan.*—One of the important functions of a report like this can be to narrow the range of disagreement on such matters as employment, growth, and price levels. But by the unmistakably partisan orientation of the analysis the report instead tends to drive us apart. This was unnecessary.

For example, in the discussion of "performance" with respect to the three majority-stated goals, the partisanship is particularly marked. It is perhaps understandable (though basically erroneous, we believe) that on the first two of these goals, employment and growth, the majority talk about problems since 1953. However, when the majority then talk about inflation as if it has been a worse problem since 1953 than before, the partisanship reaches an extreme.

Why should the time periods and terminal dates used in both staff and committee reports be invariably and obviously juggled to put the worst possible light on the record of the present administration, and exalt the record of previous Democratic administrations? Why, by implication, should the report continuously convey the false impres-

sion that we have not recently made any progress in stabilization and other policies and that we were more successful under the previous administration? The facts show the opposite. Why should congressional responsibility be asserted so righteously on policy formulation, and then disclaimed so piously on unfavorable policy results? These are just a few of many similar questions.

(2) *The majority report is unbalanced and evasive.*—Any report of this nature, of course, must be somewhat selective; seemingly, however, this selectivity was not designed to provide a balanced picture of the views of the various authorities. Dubious assertions are made on the basis of flimsy or inadequate evidence, while the weight of other evidence is disregarded. Many real problems are pushed under the rug, conveying a misleading impression to the reader that there are no costs or hard choices involved in trying to pursue several policy goals at the same time. It is not enough to be clever; a report of such importance should be truthful. To be truthful, it is not enough to tell nothing but the truth—it is necessary also to tell the whole truth.

(3) *The majority report is internally inconsistent.*—How can a whole new set of selective controls, a theme which runs through the report, be reconciled with recommendations to make the economy more flexible and responsive to consumer demands? How can the report find market power to be a cause of inflation, requiring more vigorous antitrust enforcement for business, and yet fail to meet squarely the question of market power in the hands of unions?¹ How can the report speak blithely about our “capacity to produce goods and services consumers want and need” and yet call for growth in terms of gross national product with apparent disregard for consumers’ preferences as to work or leisure, current or future consumption, services or durables? How can the report find structural shifts in demand and output to be a major cause of inflation, and yet disregard the implications of the fact that shifts of such magnitude would create some serious labor market dislocations and increase structural unemployment? Peaceful coexistence among many of the majority’s ideas is not possible within the boundaries of one report.

We regret that we must say these things about a report which nevertheless does contain some commendable and worthwhile policy recommendations. Fortunately, many of the recommendations are unrelated to the shaky analysis and extraneous commentary which accompanies them. But these sound policy observations are placed at a severe disadvantage, for they have to fight hard for a hearing against the contradictory babble that swirls around them.

These general comments are supported in the section-by-section evaluation of the majority report which follows.

II. EVALUATION OF SPECIFIC PARTS OF THE MAJORITY REPORT

In the short space of time available to the minority, and lacking a sound and objective staff report to rely upon, we could not possibly prepare a comprehensive constructive report of our own or a thorough critique of the majority report. By going through their report section by section, however, we can focus attention on what we believe to be some of the main issues and highlight some of the major areas of agreement and disagreement.

¹ See Senator Javits’ note to sec. 6.

1. The Nation's economic objectives

The majority reduces our economic goals to three: economic growth, high and stable employment, and stability in the general level of prices. Certainly, these are important goals which we all seek. But, is this an exhaustive list? Surely it is not. There are other important economic goals, and if these are not also made explicit, we think it is impossible to establish priorities and resolve conflicts.

Virtually all countries and economic systems share these three major goals. The really significant differences among economic systems arise out of the interactions of these goals with other goals. Fundamentally, it is our great regard for and our realization of the goal of economic freedom that distinguishes the structure and performance of the American economy from that of the Soviet Union.

At the minimum a list of major economic goals should include economic freedom, economic efficiency, economic stability (both price level and employment), economic growth and economic security. Some of these additional goals are implicitly adopted by the majority in discussion, but we cannot have "the very clear concept" of objectives which they call for if the list is incomplete and the relationships among the goals—the circumstances under which they conflict with or complement each other—are never carefully explored.

Economic freedom is an end in itself, one which Americans very highly prize.

Economic freedom means economic opportunity for the individual as a seller of his services and output, and also as a buyer in markets responsive to his wants. It allows individuals with initiative, imagination, and faith in their own ideas to break out of the rut of tradition into new and more productive endeavors. Economic freedom, with its challenging opportunities and its built-in disciplines, is a powerful instrument for promoting economic growth, efficiency, and welfare. But, because of risks, frictions, and imperfections in the economic structure, economic freedom may at times conflict temporarily with economic stability and economic security. In view of the majority's forthright and correct condemnation of price control and of their intense interest in economic policy since 1953, it is a striking omission that they say nothing of the successful abolition of price controls in 1953. Economic freedom, and thus the conditions that promote economic efficiency, were thereby increased, while significant progress was made in maintaining price stability.

Economic efficiency means that our productive resources are allocated among competing uses, both private and public, so as to produce the greatest output of the right things at lowest cost. Maintenance of economic efficiency requires that the economy be very flexible, capable of adapting promptly and smoothly to changing consumer, business, and public demands. It means that public and private consumption and investment reflect the true preferences of the people in light of the relative scarcities involved. This important objective is not explicit in any of the three goals which the majority set forth as all-embracing.

We want our economy to be efficient, whether we grow at a slow rate or a fast one. Economic efficiency complements growth because as it improves we get more output from a given set of resources and because meaningful, sustainable growth requires the same kind of

flexibility and resource mobility that promote efficiency. Efficiency in some ways complements stability; no one would argue that mass unemployment makes for an efficient economy. In some ways, economic efficiency does conflict with stability and with security. The way to reconcile these objectives is to work toward improving the responsiveness of the economic system and the enlargement of economic opportunity for all.

Economic growth, economic freedom, and economic efficiency tend to reinforce each other. But economic growth typically involves changes, with effects unevenly distributed. It rarely is to be had for free—it upsets the status quo, it disrupts and bankrupts, it makes obsolete existing skills and capital assets. Growth may then conflict to some degree with stability and security, though in the long run it enables us to strengthen economic security.

Stability and security go together in many respects. Increased stability of employment provides those willing and able to work with an increased security in steady incomes. Society can attempt to provide security by preventing economic change or adjustment to it, but this can be and often has been a terribly costly and temporary route to security, clearly one which is detrimental to the objectives both of growth and of efficiency. Excessive concern with either stability or security can jeopardize economic freedom, efficiency, and growth. To pretend otherwise is to delude ourselves.

Given our present knowledge about economic processes, and assuming no dramatic improvement in the adequacy and timeliness of the flow of data on which policy must be based, it seems fair to say that the rate at which we can improve the overall performance of our economy will depend heavily upon our ability to increase the competitiveness of our markets, raise the mobility of labor, and reduce price rigidities.

In view of the heavy current concern about growth, we wish that the majority had made one point unmistakably clear: Growth which is promoted by means which erode freedom and efficiency is likely to produce only “ersatz” growth. Whatever the numbers and rates may seem to show, force-fed growth will tend to distort the economic structure and lessen its capacity to satisfy our private and public wants and needs. Economic growth is meaningful only as it provides us with more of what we most want, both as individuals and as citizens vitally concerned with the security of our Nation and of the free world. It is interesting to speculate about what the Russian economic growth rate would be if we were able to measure Russian output in terms of the values put on it by the Russian people. Clearly, the figures would fare poorly in a comparison with those derived from official sources, based, of course, on “administrative” valuations.

Our basic point is that the goals of economic policy are far more complex than the majority report suggests. Our dissatisfaction is not primarily with what the majority says about our national economic objectives—by and large we agree. Our dissatisfaction is with what they do not say. The section might more properly be entitled “All This and Heaven Too,” for it leaves the ridiculous impression that perfection is easily and costlessly attainable. This is not a balanced and nourishing diet for anyone to set before the American people—and we regret that it was served by the majority of the Joint Economic Committee.

2. *Performance of the U.S. economy in recent years*

Throughout the majority report, figures around 4.5 percent for annual growth in total production of the U.S. economy are frequently mentioned. This 4½ percent figure turns out on examination to be as phony as a 4½ dollar bill.²

Figures around 4.5 percent are used in two quite different respects, referring to: what the majority allege the U.S. economy could do over a long future period; and to what they claim the U.S. economy did do in the (artificially selected) years 1947–53. The repeated and alternating use of essentially the same figure both for the longrun “goal” and for the experience of 1947–53 hardly gives the impression that the majority want it to be thought of as a mere coincidence. Accordingly, there ought to be some connection between the policy recommendations which are proposed to achieve this goal and the policies which were followed in the 1947–53 period. However, we search in vain for any such connection. On the contrary, on searching carefully, we find a set of explanations which clearly show up the period 1947–53 as totally unrepresentative, and not one we would want to repeat; and we find that there is no basis in fact for the 4.5 percent figure as an appropriate goal in the future.

In the words of the majority report:

After *the inevitable decline* of total output at the end of World War II, growth resumed in 1947 was interrupted by the recession of 1949, and *then continued at a very high rate during the Korean war.* [Our italic.]

At other points in the majority report, it is also conceded that the inflationary boom of 1946–51 had something to do with the pent-up demands of consumers because of World War II. To make the rate of increase as large as possible, the majority selected the year of lowest output in the postwar reconversion period as their base, and calculated the growth from this point through 1953, the year of peak government spending in the Korean war boom. Are we seriously expected to use this period as a guide to the achievement of a high rate of growth—a period of postwar conversion, forced draft production to break the bottlenecks in satisfying pent-up consumer demand, wartime remobilization, and rampant inflation? Surely, adoption of this war-reconversion-war pattern as our ideal would be tantamount to throwing our policy goals to the winds.

We cannot believe that this combination of policies is what the majority has in mind when they repeatedly hold up for favorable comparison the growth achieved in the period 1947–53. Surely the nature of the two booms in that period—the post-World War II boom to satisfy pent-up demands, and the Korean war boom—must have slipped their minds, or has been blotted out by their hypnotic fascination with a 4.5 percent growth rate. Actually, the economy may have done less than it was capable of doing in that period; for the rate of growth of total production from 1945, when World War II production was slowing down and reconversion was just beginning, to the peak of the Korean war boom in 1953, was less than 2 percent per year, which on the majority’s reckoning is a low growth rate. We believe that we should look to other periods for our main guidance as to what our

² Senator Javits notes his affirmative recommendations on this item as set forth in his additional views.

economy can and should accomplish both qualitatively and quantitatively.

The most important point to remember in this connection is that growth is desirable only if it consists of goods and services that the American people want. Artificially stimulated growth producing the wrong things, or in response to previous shortages, is not the kind of growth we want to aim for in the long run. Sound sustainable growth depends mainly on the efficient operation of the forces promoting growth in the private sector of the economy. This is a point which the majority recognize well enough when they think about it; they ought to have kept it in mind when formulating their policy recommendations.

A somewhat misleading use of statistics is also apparent in their discussion of unemployment. They assert that unemployment rates have been rising, and state, "During the recession of 1949 unemployment reached a level of 5.9 percent. In the 1957-58 recession, however, the unemployment rate was 6.8 percent." Taken at face value, this is simply false: in both these recessions, the maximum unemployment rate was over 7 percent. The figures given in the majority report, as just quoted, are the annual averages for 1949 and 1958, respectively; the difference between these 2 years reflects the fact that all the peak unemployment months of the 1957-58 recession occurred in the calendar year 1958, whereas some of the peak months of the 1949 recession occurred in early 1950. In other words, their comparison is based on statistical artifice.³

The majority's comparison of 1956-57 unemployment with that in earlier boom periods is also inaccurate. Elsewhere they note correctly that the 1956-57 boom was characterized by major shifts in the composition of demand and output, with some sectors growing much more rapidly than others. Unfortunately, they did not also note that such a period necessarily involves many people changing jobs, as they seek better opportunities in the expanding industries. People seeking work, even though they change employment in response to better opportunities, are counted in the figures in unemployment; and this element in the situation was undoubtedly more important in this period than at most other times. Another factor that is important, as was pointed out in Study Paper No. 6, is the relatively larger number of inexperienced persons looking for work in 1956-57 than in 1948-49. The same study paper shows that in the 1955-57 period, 10 percent of the unemployment was due to voluntary shifting from one job to another; 20 percent was due the entry of new workers, nearly all of whom show up among the unemployed before they show up among the employed; and another 20 percent—bringing the total to 50 percent—was due to seasonal fluctuations. Whatever the unemployment statistics show (and of course it is important to study them to learn what we can from them), they show no distinct trends toward higher rates of unemployment.

The majority turn next to discussion of the recent record of inflation. Here, the preoccupation with the 1953-59 period seems spectacularly inappropriate, since the greatest difficulties with inflation obviously occurred in the years preceding 1953. The Consumer Price Index in

³ Actually, the galley proofs of the majority report, the only version we have had in preparing our report, read "1953-54" where our quotation reads "1957-58." The figure 6.8 is correct for 1958. The 1954 figure is 5.6 percent and the highest month is just over 6 percent, both lower than 1949.

the past 20 years has risen at an average rate of 3.8 percent per year, but the rate was 5.0 percent before 1953 and only 1.3 percent from 1953 on; and 90 percent of the total rise occurred before 1953.

Except for the period from early 1956 to early 1958, the Consumer Price Index has been remarkably stable—since President Eisenhower took office, if one wants to be as political as the majority report; since about a year before that, if one wants to tell the whole truth fairly and without partisanship. Furthermore, as was brought out in the papers and testimony of witnesses, and as the majority acknowledges at one point, the Consumer Price Index certainly overstates, perhaps substantially, the rise in prices.⁴ We do not want to minimize the dangers of inflation; indeed it is only as we are alert to these dangers that we can have success in dealing with them. But we also do not want to see exaggeration of the amount of inflation that has actually occurred, or misrepresentation of when it occurred.

Finally, the majority turn to what they estimate our growth potential to be. It is important to bear in mind, despite the impression they give to the contrary, that there is no connection whatever between their discussion of the recent performance of the economy and their estimates of future growth potential. The latter represent a self-contained study almost totally unrelated to anything else in their report, including their policy recommendations. In effect, they attempt to estimate a range of possible growth rates that the economy may be expected to achieve without regard to policy actions at the Federal level.

A key element in the majority's estimates of potential growth is the expected growth in total man-hours worked, which in turn depends on the growth rate of the labor force and on the rate of decline of annual hours of work.⁵ Both of these variables are at present a matter for private decisions and will probably remain so. Since they place such emphasis on the achievement of a 4.5 percent rate of growth, some clarification of their attitude on this point would be helpful. We of the minority definitely favor leaving this matter to private decisions.

The other principal element in the majority's calculation of the range of possible future growth rates is the growth and modernization of the capital stock, through investment in plant, equipment, and other productive capital. We recognize the importance of this factor, but their calculations are misguided to the point of foolishness. As the labor force and total hours worked increase, a corresponding increase of plant and equipment is needed merely to keep the new workers as well equipped as the previous members of the labor force. Thus, a certain amount of annual investment goes to *widen* the capital stock. Any additional investment, beyond that for the necessary widening,

⁴ In this connection, it may be noted that the three largest mail order houses, all carrying comprehensive lines of consumer goods, have recently reported that on the average their current prices are actually a trifle lower than they were a few years ago. Although the coverage of these mail order houses is not as broad as the index, it is significant that as the index is computed no major component shows such behavior. We recommend that the Bureau of Labor Statistics undertake, or contract with competent outside experts to undertake, special studies to estimate the amount of overstatement of price rises in the total index during the past decade. This should be done in advance of the work already commenced for eventual revision of the index.

⁵ The majority mentions also the level of unemployment, apparently without understanding that this affects primarily the level of economic activity rather than its rate of growth. If unemployment averages around, say, 4 percent rather than 5 percent, this will imply about 1 percent higher output on the average, and growth will operate on a higher base. Other things equal, this is, of course, desirable; but it does not affect the rate of growth.

Also, the majority overlooks the fact that a high rate of increase in the labor force necessarily tends to increase the unemployment figures, mainly because each new entrant is counted as unemployed while he locates his first job, but partly also because there are usually fewer employment opportunities for inexperienced than for experienced workers.

is available for *deepening* of the capital stock; that is, for improving the quantity and quality of the capital which each worker employs. The widening is necessary to maintain the level of output per man-hour; it is the deepening that increases output per man-hour.

A table presented by the majority purports to show that a 4.5 percent rate of growth is quite possible. Perhaps it is; but we fail to see the significance of the calculations. The numbers presented might just as well have been pulled out of the air. There is nothing in either the staff report or the majority report to tell the independent reader how those growth potentials were derived. Reference is made to a forthcoming study paper, but surely conclusions cannot be drawn from evidence not yet presented. The majority appear to be presenting conclusions from which the evidence will be derived later. A close comparison of the majority's alternative computations of growth potentials, however, seems to show that the majority attributes fantastically high rates of return to any extra deepening of our capital stock that we might achieve. If this is really a valid conclusion to be drawn from their undisclosed premises, then the majority should strongly champion public policies that favor investment at the expense of current consumption. We are still in the dark, however, as to what these estimates of growth potentials really mean.

We must regretfully conclude that the 4.5 percent growth figure advanced by the majority is simply slick statistical prestidigitation, with no discernible relation to the real world or to sound economic analysis. Perhaps the achievement of this rate of growth is possible or desirable, or both possible and desirable, but the majority have failed to provide any grounds for establishing whether it is or not.

It is especially regrettable that the majority has indulged in a "numbers racket" with growth rates, for every single witness at our final integrating or capstone sessions at the end of October warned against this (except one who did not mention growth at all). It was indeed remarkable (as the press noted at the time) that with so diverse a group of experts, selected under the direction of the majority, not one gave evidence in support of the majority's position that a target growth rate should be aimed at. On this point as on others, the majority might as well have recorded their prejudices before the \$200,000 was spent—indeed, we have no evidence that they did not do so.

All such estimates are necessarily slippery and complex, as one expert witness after another pointed out in the committee's hearings. The fact that the majority's calculations depend heavily on the assumed rate of population growth is just one of several reasons why projections of the rate of growth of total production are not particularly instructive. Many of our witnesses suggested output per capita, or, even better, output per man-hour. In any case, as several of them pointed out, our understanding of the economics of growth is still very primitive. The calculations presented by the majority amply bear out this proposition.

Still more fundamental, however, is the erroneous and unstated assumption of the majority that any increase in growth, no matter what the cost, is desirable. This is an easy error to fall into, particularly in trying to promise all things to all people in the hope that no one will check up on possible inconsistencies. When account is taken of the costs of growth, the right policy for growth at once

becomes apparent. The appropriate goal on growth is that we should be able to meet our collective needs and responsibilities and to provide the fullest opportunity for each individual to devote whatever share of his disposable income he wishes to providing for his future well-being, and for that of his children and descendants. The outcome of such choices by individuals will be a certain longrun average rate of change in total production. There is no basis for saying that either a higher or a lower rate of growth than this would be superior or desirable. Our policy toward growth should simply be that these opportunities should be kept open in such a way that the choices made can be based on the real facts of our productivity.

3. *Fiscal policy*

We join the majority in many recommendations of this section: that Government expenditures programs not be conducted in an un-stabilizing manner; that we strengthen our automatic stabilizers, such as the Federal-State system of unemployment compensation; that we overhaul our chaotic Federal tax system to eliminate special dispensations and other features which distort and inhibit growth, create systemic inefficiencies, erode the tax base, and undermine confidence in our self-assessment tax system; that proper accounting procedures be used in the Federal budget.

These recommendations deserve and should receive substantial bipartisan support (though perhaps they will meet bipartisan opposition, too).

Much of the majority's discussion of fiscal policy revolves around the question of the proper mix between monetary policy and fiscal policy. The majority believes that in recent years we have relied insufficiently on fiscal policy and excessively on monetary policy. The majority criticizes this policy mix on grounds that it is detrimental to growth, that monetary policy is discriminatory in impact, and that fiscal policy has "prompter and larger effects," while monetary policy suffers from "inevitable delays before its effects are felt." We question the validity of such sweeping assertions.

Before raising such questions, however, we heartily welcome the majority to the side of fiscal responsibility as a powerful anti-inflation and growth-promoting weapon. In plain language, fiscal responsibility means the development of a healthy budget *surplus* during good years. We applaud the majority's acceptance of the simple truth that stabilizing policy cannot be a one-way street, its recognition that if we are to have budget deficits in recessions (as is sometimes inevitable and desirable), then we must all work to insure substantial budget surpluses during boom periods. The majority report is quite right when it says that we have not taken advantage of the full possibilities of fiscal policy in the postwar period—though it ignores the complexity of reasons which were responsible, as well as the interesting and highly relevant question as to which party has been typically found on the side of fiscal responsibility. At any rate, the majority must be delighted that the administration's budget for 1961 projects a surplus for debt retirement of \$4.2 billion, and the administration will certainly be pleased by this new, if not fully expected, source of congressional support.

While we fully agree with the proposition that too much of the stabilization job has been dumped into the lap of monetary policy,

we must question some aspects of the majority's criticism of this policy mix.

In the first place, the assertion that monetary policy acts selectively is no criticism at all. Selectivity is rather one of its salutary features, since, when restraint is necessary, the consumers through the market decide the priorities. We will take up this question more fully in the next section.

In the second place, inevitable delays will plague fiscal policy at least as much as monetary policy, and probably even more. Once we recognize need for action, decisions on monetary policy can be made a good deal more promptly than decisions to invoke ad hoc fiscal policy. Given our present political institutional arrangements, it is difficult to see how budget and tax policy could be adjusted smoothly and promptly to the new requirements. Once action is taken, fiscal policy might well generate more prompt effects, but this is by no means as certain as the majority's categorical assertion implies, and they offer no evidence to support it.

The majority recommends vigorous use of ad hoc tax policy for stabilization purposes. This may have advantages, but whether tax cuts really work promptly depends on how people react to tax cuts when they expect their tax liabilities to be increased sharply in the near future. When all is said and done—considering the time that would probably be consumed in congressional wrangling over the kind and extent of tax cut and considering the uncertainties of taxpayers' reactions—it is misleading for the majority to make these assertions without pointing out that there is some basis for questioning whether we have yet reached that state of perfection of knowledge and political machinery required to give this recommendation much meaning.

We agree that it would be desirable to improve fiscal flexibility. But until there have been thoroughgoing budgetary reforms, ad hoc fiscal stabilizers will be inevitably subject to a host of practical limitations. Indeed, under present arrangements, adoption of the majority's recommendations to make ad hoc tax policy our primary weapon of stabilization policy might well turn out to be unstabilizing.

We agree that the question of the proper fiscal and monetary policy mix is important if we are to achieve our policy goals to the extent possible. In boom periods it may well be highly desirable to develop substantial budget surpluses, as they would work to ease the burdens on monetary policy and to promote private capital formation. But increased private investment requires an increase in the private savings-consumption ratio. If the majority really wants to use budget surpluses and easier money to promote such growth, it should declare itself in favor of higher taxes on consumption. We hope that the majority will be willing to face up to its own conclusions.

The majority report contains a number of references to needs for more adequate, accurate, and timely statistical knowledge as a basic precondition to sound private and public decisionmaking. Indeed, the committee's study was, itself, seriously handicapped by an insufficient underpinning of solid data. Certainly, the greater reliance on fiscal policy recommended by the majority would require a shortening of information lags and a closure of some information gaps.

Most of the existing deficiencies in our economic intelligence are long standing. There is a clear need for major governmental statisti-

cal breakthroughs in such fields as prices, wages, costs, savings, investment (including inventory investment), consumer finances, productivity, and international trade.

The majority could have been most helpful had they set forth in some detail a program for statistical progress. In the long run, the goals of economic policy would thereby have been better served.

We will not comment on the specific reordering of budget priorities recommended by the majority. These priorities are for the people and their elected representatives, the whole Congress, to decide. As everyone has his own catalog of preferences and priorities, the only right schedule is a consensus arrived at through public discussion and democratic debate. We point out, however, that unless budgetary procedures are substantially improved, the budget will necessarily remain an imperfect instrument for ordering national priorities in a rational manner.

4. Monetary policy

To the majority's section on "The Purpose of the Treasury-Federal Reserve Accord of 1951" we give our wholehearted agreement and support. We recognize and commend the role played in 1951 by the distinguished chairman of this committee in helping to bring about the return to responsible monetary policy and thus end the rampant inflation of the years prior to 1951. We are encouraged by the majority's firm rejection of the "needs of trade" doctrine of credit and banking.

There is a basis for the assertion that periods of credit stringency bear more heavily on some sectors, especially that of residential construction, than on others. It should not be forgotten, however, that the experience of the American economy indicates that residential construction has its best years when the economy is pulling out of a recession, such as the years 1950, 1955, and 1959. In the later phases of expansion, when heavy capital goods spending reaches extreme proportions, residential construction tends to be crowded out, even if money is kept artificially cheap (as it was, for example, in early 1951). Cheapening of money, in the absence of an offsetting fiscal policy, leads to inflation under such circumstances. It does not make building materials more plentiful, or increase the other resources for which residential construction competes with industry; it just makes them more expensive.

In view of the extreme positions taken in the staff report on monetary policy, we are somewhat relieved at the moderation, and even diffidence, with which the majority report toys with the idea of cheap money. It asks only a moderate increase in the rate of growth of the money supply, a modest lowering of interest rates, and only occasional Federal Reserve intervention in the long-term Treasury bond market. It probably would be unreasonable for us to be too critical of their position, or to expect too much of them, in this delicate policy area at this time.

In fact, it may turn out that the post-World War II tendency toward greater efficiency and speed in the turnover of cash and demand deposits is about spent, and that the expansion of the money supply in step with the growth of physical output can be resumed without inflationary consequences. We would all welcome this, just as we would welcome any opportunity for a noninflationary lowering of

interest rates. It would hardly be wise to take such a development for granted, and it would be the height of folly to change present policies on such a possibility. We believe, therefore, that decisions as to when and by how much the money supply should be increased are best made by the monetary authorities, on whom this administrative responsibility has been placed by the Congress. We would also leave to them the responsibility for making the technical operating decisions—such as whether to emphasize government bills in open market operations or to modify rediscounting rules or reserve ratios—with which the majority seem so concerned.

The question of selective credit controls is too important and too highly controverted a subject to be embraced without qualification, as the majority does.⁶ We seriously question the rationale for the majority's recommendation for "a detailed study * * * to determine what can be done to reduce the instability of plant and equipment investment." We cannot believe that the majority realized the full implications of this proposal. That all sectors of the economy do not expand at the same pace in a boom is hardly surprising. The fact that some sectors are growing rapidly, and sometimes encountering bottlenecks, means that these sectors, in terms of expressed and expected consumer desires, have the most valuable contributions to make to improvements in the standard of living and to basic productive capacity. It is indeed true that artificially choking off expansion in these sectors would have an incisively deadening effect on upward price pressures. It would also have an incisively deadening effect on growth and welfare.

Thus, the majority are in a paradoxical situation. Making a great clamor, they charge that growth has been stifled in the name of fighting inflation. Then they recommend policies which would accomplish precisely that.

The so-called discriminatory effect of general monetary restraint, which so exercises the majority, is simply the result of a free expression of the market choices of individuals, who naturally expend their limited resources so as to get the greatest benefit from them. Where they demand more than can be supplied without price increases, the price increases indicate where they most want growth. These increases point to areas where the contribution of this growth to consumer welfare will be greatest. This is just the kind of discrimination that fosters sound, meaningful growth.

5. Debt management

The management of the Federal debt presents many complex and continuing problems, some of which could be ameliorated or eliminated. We agree with the majority that some revision of both Treasury and congressional policies is probably in order.

The majority report makes many recommendations on debt management policy that merit careful study and consideration—bond auctions, callable bonds, advance funding, etc. We of the minority simply have not had sufficient time to evaluate these proposals. We must, therefore, reserve judgment on many such specific matters until we can give them the attention they require. But we do urge that Congress and the administration continuously explore new approaches

⁶ Senator Javits notes his view that credit controls a vital aspect of governmental as well as private economic policy and that standby authority in a situation of the present nature must be given serious consideration.

to debt management. Clearly, we have not yet learned to live as comfortably with our large Federal debt as is possible.

The majority recommendation against removing the 4.25 percent interest rate ceiling is crucial.

At the beginning of this part of the report, the majority promises to discuss "the arguments and policies affecting the interest rate ceiling." There follows approximately 10 pages on a large number of highly technical financial and debt matters which bear on the level of interest rates but not directly on the principles involved in determining whether an interest rate ceiling is a wise economic policy. In the seventh and concluding section, the discussion comes back to the interest rate ceiling but just long enough to conclude—with no discussion or evaluation of the specific issues involved—that the 4.25-percent ceiling should be retained.

Quite apparently the majority position is this: They do not like many present congressional, Federal Reserve, and Treasury policies and certain institutional arrangements; therefore, they will not support removal of the ceiling. *This is nothing but political blackmail—with the public the main loser.*

The interest rate ceiling is a current and pressing problem. By contrast, the reforms the majority desire are, in the main, longrun changes which will require both administration and congressional action. Meanwhile, the interest rate ceiling continues to be an immediate and pressing matter. The issue has been studied exhaustively and, though there is general agreement among economists that its effects are mischievous, the majority refuses to act. The majority's position is all the more difficult to justify, because they know and admit that the ceiling should be removed.⁷ They might just as well refuse to vote any defense expenditures because their views on the defense mix do not coincide with those of others. The way for men of good will to resolve differences in opinion as to policy goals and means is by open discussion and debate, not by blackmail.

It is hard to follow the position of the majority members on debt management. At one point they say debt management should interfere as little as possible with monetary policy, yet at another point they want the Federal Reserve System to help neutralize what would be an essentially procyclical funding policy. They recommend that the debt ceiling be removed. Yet they do not recommend the elimination of the 4.25 percent interest rate ceiling now—even though they admit it will ultimately have to be done. Nor do they mention the 4.25 percent ceiling on savings bond rates, which also should be removed.

Actually, refusal to abolish the 4.25 percent interest rate ceiling provides no ceiling on interest at all. It simply places a ceiling on maturities (5 years), thus forcing the Treasury to compete with the multitude of short-term borrowers, sending these rates higher and higher. This very month the Treasury paid over 5 percent for money—at a time when a long-term issue might have sold for less than 5 percent.

We recognize that there are serious limitations in trying to use debt management for economic stabilization. We are not unsympathetic with the majority position that "the primary purpose of the

⁷ Senator Javits notes his affirmative recommendations on this item as set forth in his additional views.

Treasury with respect to debt management should be to get the best possible bargain * * *." However, we could not go along with them without ironclad assurance that no pegging, long or short run, is ever to be involved. We certainly would like to keep total interest payments as low as is consistent with other policy goals. It would be a costly saving to the taxpayer, however, if attempts to minimize interest charges were to set in motion pressures leading to less effective anti-inflation or anti-recession measures.

6. *Policies to improve the structure of the economy*

Our future success in improving the performance of the economy depends in large measure upon the degree to which the economic structure is adaptable and competitive. We welcome, therefore, the emphasis placed upon the structure in the majority report. Indeed, the appraisal of structural problems and the numerous policy proposals for improving defects constitute a valuable and constructive contribution. Many of the criticisms and proposals advanced are obviously designed more to stimulate discussion and further ideas than to be taken at face value, and some say little more than that something good but unspecified ought to be done. But a number of the recommendations deserve the serious attention of the American people and their Government.

We cannot, however, accept the statement that "our studies have shown" that "market power" (no matter which of the majority's several arbitrary and inconsistent definitions of market power is used) has significantly contributed to inflation. The staff report states that "There was no generally applicable relationship evident between union strength and wage changes * * *," and Study Paper No. 1 found that "the degree of price increase in various industries (after 1955) was generally associated with the magnitude of the rise in demand." Until an analytically defensible and statistically significant relationship is obtained, we shall keep an open mind on the inflationary implications of business and union market power.

Excessive private market power is incompatible with the goals of political and economic freedom, renders the economic structure less responsive to change, and creates economic waste. The minority endorse, therefore, the majority proposal for expanding and strengthening the business antitrust program. We suggest, however, that there is a solid basis for the caution which led the majority to conclude that "the problems of establishing appropriate criteria in this area [enforcing antitrust legislation against oligopolistic market structures] are difficult * * *." Market organization and behavior are exceedingly complex in nature and the extent and basis of market power too diverse to allow easy identification. Much harm, therefore, can be done by measures which attempt to improve competition by placing blanket restraints on particular types of business practices or identify market power with size, concentration ratios, or other superficial guides.

We accept the majority's recommendations that the Antitrust Division be given more power to subpoena business records in civil suits and that "Congress review the policies of the regulatory agencies in those industries which are granted exemption from the antitrust laws." The principle of prenotification of proposed mergers is sound, though here we advise caution to prevent needless interference of

government in proper business activities. We also agree that tariff reduction would make American markets more competitive and should be continued, where appropriate, with real attention paid to reciprocity; the goal here should be freer world trade, not unilateral reductions in American tariffs.

The majority assert that "the exercise of market power by strong unions has contributed in some degree to the inflation of recent years." If the majority believe (1) that strong unions contribute substantially to inflation and (2) that inflation is to be resisted, then it is reasonable to expect them to suggest some legal remedies. Instead, we find no strong call for action to counter union market power, in contrast to the specific recommendations for action to counter business market power.⁸

In view of the lack of consistency in the standards and principles with which the majority report approaches the problems of excessive business and union market power, the minority cannot but conclude that this asymmetry in the conclusions of the majority is inspired by partisan politics.

We join with the majority in recommending measures designed to improve labor mobility. We strongly dissent from those proposals designed to reduce the mobility and productive efficiency of labor and other resources. We congratulate the majority upon their conclusion that "uneconomic production activities, which are able to continue only through Federal subsidies, should be gradually curtailed. This would free these resources for more productive uses." We find it difficult, however, to understand how this eminently sound and constructive statement is to be interpreted when accompanied by pleas for increased subsidies to depressed areas and to small business.

7. *The farm problem*

The farm problem will continue to exist as long as we regard the solution as politically unpalatable. It will end when we develop the courage to face facts and do what is required. This is nowhere made more clear than in the majority report. There is a succinct statement in our staff report:

Since mobility of people and of resources out of agriculture into other industries is the only ultimate long-term solution to the problem, the Federal Government should take all reasonable measures which facilitate this process * * *

Since the majority report not only fails to deal with, but even refuses to recognize, the question of transferring resources out of farming, its recommendations begin and end in sterility.

We agree with the majority that average farm income must be raised and that we must find a way to accomplish this at reduced cost to the American taxpayer.

As is stated in the majority report, increased output is likely to produce less revenue. Yet the majority's recommendations would lead to greater production and consequently less dollar volume of sales than would a free market. As the same time, their proposed new support program would keep people in farming who otherwise

⁸ Senator Javits notes the discussion of his views concerning the application of antitrust laws to trade unions and regarding measures to protect the public interest in labor management relations is set forth in his additional views.

would accept other employment. Less sales revenue divided among more people can only mean lower average earned incomes.

How much would the program proposed by the majority cost the Government? In neither the staff nor the majority report is there any estimate whatsoever of the expenditures involved. While we agree with the principle of limiting payments per farm, whatever the system of aid to agriculture, neither report seems to recognize that such a limit would stimulate the legal, though not necessarily the operational, division of farms, making the cost of the majority's recommendations far greater than would appear from the present number of farms. In fact, their proposal might prove even more costly than the present program, and it is quite unlikely to produce the objective of higher average farm income at lower cost to the taxpayer.

Nor would the majority's suggestions aid those really in need—the 2.7 million farms which together produce less than 10 percent of salable output. No plan which bases aid on output, as do both the present program and that recommended by the majority, can be of much help to those who have little or nothing to sell. The technical revolution in farming has made it possible to produce adequate quantities of farm products without the employment of so much labor. The farm problem will not be solved until many more rural people have taken the step of seeking their places in other more productive—and more remunerative—occupations.

We are unclear as to the intent of the vague recommendation: "To deal with the low-income problems in agriculture, a rural development program should be stepped up to a size equal to the problem." The rural development program, initiated in 1955 as a cooperative effort of Federal, State, and local governments and of private agencies, has made encouraging progress in improving the conditions of low-income families living in rural areas. The rural development program includes such activities as improving incomes from farming, providing more efficient farm marketing, promoting off-farm work, balancing agriculture with industry, evaluating rural manpower assets, increasing opportunities through vocational training, attaining better health, and improving basic education. We welcome the majority's support for this administration program, and we count on their support for the substantial increase in funds which the President has recommended for this program in his 1961 budget message.

It is unfortunate that the majority was driven to reject the tenor of the staff report and so many of its excellent recommendations—the use of the soil bank to retire whole, rather than sections of, farms; the halting of wasteful and unnecessary reclamation projects; the enforcement of cross-compliance provisions; and the improvement of our overseas disposal programs.

In spite of these criticisms, we find much in this section of the majority report that we can commend; for example, the criticism of present acreage controls and the suggestion that Government purchases of farm commodities be ended.

The farm issue confronts this Nation with one of its most serious economic and social problems. We are distressed that the majority of this committee felt compelled to dodge altogether the central issue involved—the transfer of resources out of agriculture. We can and we must devise a farm program that will bring about these transfers

voluntarily, and will bring them about not in desperation but in response to opportunities for self-betterment.

8. *America's changing position in the world economy*

We congratulate the majority on their statement concerning the U.S. position in the world economy. At a time when the clamor associated with the present outflow of gold has stampeded many observers into careless analysis and hasty suggestions, their sensible review of the issues and sound recommendations deserve praise.

The report points out what is usual and what novel about the present balance of payments deficit; we have had deficits in 9 of the last 10 years, but the loss of gold in 1958 and 1959 was at a rate considerably above the average. This resulted from the improvement in the competitive position of foreign countries, likely to be permanent, and from certain special features, likely to be reversed. We agree that the present situation calls for caution and close attention rather than drastic revisions in policy and we accept the specific recommendations appearing in the majority report.

III. CONCLUSION

We regret that these minority views have necessarily been confined to comments, many of a negative nature, on the majority report. We should have preferred to provide some useful guidelines to economic policy; indeed, as we stated earlier, we would have preferred to join in a unanimous report of that character. In the light of the shortcomings of both the staff report and the majority report, as well as the limitations of time, however, our statement had to take the form that it has.

The American economy has served the American people magnificently. That statement can be made for the Eisenhower period if one wants to be as political as the majority report; or it can be made for the whole postwar period if one wants to tell the whole truth fairly and objectively. That statement can be based on purely quantitative considerations if one wants to be as materialistic as the majority report; or it can be based also on the quality of American life: growth of freedom, tolerance, and nondiscrimination; improvements in education and broadening of educational opportunities; elevation in the tastes of enormous numbers of people for good literature, fine art, and great music; increasing participation in travel, at home and abroad; more comfortable and safer working conditions; greater participation in civic affairs, adult education, and religious organizations; remarkable breakthroughs in medical research and such broad application of the results as virtually to eliminate several causes of death that recently were common; astonishing advances in science and widespread public appreciation of them; growing provisions for the needy and unfortunate at home, and generous aid to underdeveloped peoples abroad.

On the material side, recessions have been mild, the price level is now more stable, growth has been satisfactory, and poverty has been diminished. Obviously, Americans have made significant material progress.

Unquestionably we can, we should, and we will do better in the future. We concur with the general sentiment of the majority that wise public policy can improve our performance with respect to all three of the goals they mention: employment, growth, and price levels. We also feel that further progress can be made toward the equally important ideals of freedom, of efficiency, and of security.

The hearings and the special studies laid the basis for a thorough and constructive appraisal of public policies for achieving these goals. We hope and expect that students and research workers will find this literature fruitful for years to come. Nevertheless, despite many sound recommendations which we endorse, the staff and majority reports fail to supply what the early phases of the study had made possible.

The minority feels that this study will not be complete unless a good staff report is first put together. Such a report could form the basis for a more meaningful appraisal of what we know and do not know, and for a more constructive and far-reaching series of recommendations for public policies.

While the special study on employment, growth, and price levels concludes on February 1 of this year, the minority will make every effort to encourage some qualified group to make an independent, thorough, and objective staff study. Only with such a study to work from will we realize the full possibilities which the Congress, the economics profession, and the public have a right to expect. The opportunities and the challenges of the times make this job imperative.

SENATE

PRESCOTT BUSH
JOHN MARSHALL BUTLER
JACOB K. JAVITS

HOUSE OF REPRESENTATIVES

THOMAS B. CURTIS
CLARENCE E. KILBURN
WILLIAM B. WIDNALL

ADDITIONAL VIEWS OF SENATOR JOHN MARSHALL BUTLER

INTRODUCTION

In general, I concur with the findings and recommendations expressed in the minority's views. Nevertheless, there are so many basic economic fallacies in the majority's report that it is incumbent upon me to submit additional views to emphasize a few of the many points of disagreement.

For many months, the committee has conducted extensive hearings, and according to the majority's report received testimony from over 100 expert witnesses. In addition, 25 study papers were prepared by outside consultants. Yet, the majority's report is at variance with the conclusions and opinions of many of the witnesses and consultants. It contains a vast array of proposals which have been presented to the Congress year after year without their ever securing majority acceptance. They deal with subjects as varied as Federal aid to education, the tariff, national defense, depletion allowances, public housing, and area redevelopment. None of these topics directly affect the rate of economic growth which is determined primarily by our ability to further capital investment.

The higher productivity of American workers has been made possible because their efforts are assisted by a unique accumulation of capital to provide tools, equipment, and other facilities. Our economy is intensive in its use of capital. None of the recommendations or suggestions provided in the majority's report would encourage capital formation or stimulate the production of real wealth, which is the basis of our economic strength. If all of the many proposals were ever enacted into law, we would face national bankruptcy and ruinous inflation.

The Congress, through the passage of Senate Concurrent Resolution 13 on March 13, 1959, directed the Joint Economic Committee to conduct a study of employment and price levels. It provided \$200,000 for this purpose.¹ The principles formulated in the majority's report do not justify such an expenditure of the taxpayers' money.

In fact, the majority's report is not responsive to the resolution but, on the contrary, has been developed as a political document which deals only with the changes which have occurred during the past 6 years. After stating the objectives of the Employment Act of 1946, the fifth line of the copy of the majority report which was submitted to the Committee for consideration contains this unsubstantiated statement:

In the last 6 years, the economy has failed to realize these objectives. There has been more unemployment than usual in so-called good times.

It is difficult to justify criticisms of our national economic policy in the face of an admission that this has been a period of "good times."

¹ S. Con. Res. 13, U.S. Senate, 86th Cong., 1st sess., Mar. 5, 1959, p. 3.

The resolution itself specifically directed the committee to conduct a full and complete study and investigation into "Historical and comparative rates of unemployment, production, and prices."² America's economic history did not begin in 1954 as the majority's report implies.

President Truman in his Economic Report to the Congress delivered on January 6, 1950, said:

There is a vital connection between the objectives which may be set for 1950 and those that we envisage over a somewhat longer span of time. It is only by looking backward over a number of years that we can truly appraise the strength and promise of the American economy.³

By failing to take a long look at the history of our economic growth, the majority's report has neglected many of the factors which are responsible for the unparalleled prosperity our country has enjoyed during the past 6 years measured by almost any indicator one might care to select. Moreover, we have been able to provide other nations with \$28 billion in foreign aid including an additional contribution to the International Monetary Fund and the World Bank of \$4.5 billion.⁴ Our own defenses have not been neglected during this period. The Congress has appropriated during the fiscal years starting June 30, 1953 and ending with June 30, 1960, the years of the Eisenhower administration, a total of \$242 billion, a staggering figure for these needs.⁵

It is difficult to measure the rate of national growth by merely examining the gross national product during a time when defense expenditures are necessarily at such a high level. A better perspective is afforded by reviewing statistical data which reflect the well-being and the living standards of the American people.

The majority's report speculates on a projection of the performance of the economy assuming a steady rate of growth of 4½ percent per year from 1954 through 1975. If a congressional committee is to engage in speculation, there is no magic surrounding a 4½ percent growth rate. It might as well make its projections using a rate of growth of 5, 9, 10, or 100 percent. No sincere and qualified economist would indulge in such speculations. However, in terms of the real world in which economic activity takes place, such an approach represents pure fantasy. The political overtones in arbitrarily selecting a 4½ percent rate of growth as appropriate for the past 6 years can best be appraised by examining the 1950 Economic Report to the Congress by President Truman when he said:

Over the past six decades, our national output of goods and services has been multiplied seven- or eight-fold, representing an average annual rate of increase of nearly 3½ percent and a virtual doubling of total output every 20 years * * *.

* * * It is a reasonable estimate that we should be able by a combination of private and public efforts to continue

² *Ibid.*, p. 1.

³ The Economic Report of the President, January 1950, p. 75.

⁴ Congressional Record, vol. 100, pt. 14, Dec. 2, 1954, pp. D743, D744; vol. 102, pt. 13, July 27, 1956, pp. D643, D644; vol. 104, pt. 17, Aug. 23, 1958, pp. D611, D612; Oct. 5, 1959, p. D933.

⁵ *Ibid.*

to increase productivity per fully employed worker by about 2 to 2½ percent annually in coming years.⁶

According to the majority's report a lower rate of growth is satisfactory when a Democratic administration is in office. But anything less than a 4½ percent rate of growth in a Republican administration is described as "an inadequate economic policy."

The quotation from President Truman's Economic Report shows that during the period from 1890 through 1950 the average rate of growth was less than 3½ percent. In fact, this report contained a chart which stated that:

Our long-run production achievements have been more the result of increased productivity than of increased employment. Output per man-hour has more than quadrupled in the last 60 years.⁷

This increased output over these six decades represents an increase of approximately 2½ percent yearly compounded.

The majority's report implies that America has not experienced a rate of growth equal to our potential. "Potential" is a vague term, subject to many interpretations. But the accomplishments of the past 6 years are concrete and measurable.

America's outstanding authority on the theory of economic growth is Dr. Simon Kuznets, professor of political economy at Johns Hopkins University. In his participation during the series of conferences at Columbia University's bicentennial, he clearly stated the factors which must be considered in appraising the growth of an advanced economy such as our own. He said:

For the more advanced countries, those in which non-agricultural industries grew to dominate labor force and product, we should note also some significant trends in the distribution of the nonagricultural sectors proper. The shares of mining and manufacturing in total labor force grew significantly, but the increase has ceased or slowed down during recent decades in many economically advanced countries. The shares of the transportation and communication industries in labor force also grew but became stable after the First World War or even before; yet because of the extremely high capital intensity and product per worker, and the remarkably high rate of growth in per worker product, the shares of transportation and communication in total labor force never reached sizable proportions. The shares of trade and other service industries, a miscellaneous group including business, personal, professional, and government services, have grown steadily and are continuing their growth during the recent decades. The distribution at a recent date in an advanced country like the United States shows in 1940 less than 20 percent of the labor force in agriculture; somewhat over 30 percent in mining, manufacturing, and construction, primarily in manufacturing; only 6 percent in transportation and communication; and about 43 percent in trade and other services. In general, trends in the shares of the nonagricultural sectors in na-

⁶ Op. cit., "The Economic Report of the President," January 1950, p. 78.

⁷ *Ibid.*, p. 76.

tional income followed the trends of the shares in labor, except for the greater rise in productivity per worker in such technologically advanced sectors as mining, manufacturing, and the public utilities. It is of course in dealing with net product, in constant prices, originating in the service industries that the conceptual difficulties in estimation are at their perplexing worst.

The capsule summary just presented contains little that is unfamiliar. The shift away from agriculture is perhaps best known and has led to the widespread identification of modern economic growth with industrialization, by which is usually meant the growing absolute and relative volume of industry as contrasted with agriculture. The causes, implications, and corollaries of these shifts in industrial structure are also for the most part familiar. But we mention them briefly, with primary emphasis on the shift from agriculture to nonagricultural sectors and on the interrelations of the implications and corollaries of the shifts.⁸

The significance of Dr. Kuznets' statement lies in the fact that in a highly industrialized country such as the United States, as its standard of living improves, more workers will be engaged in the service industries where productivity increases cannot be expected to occur at the same rate as in the industrial sector of the economy. Yet, in looking toward the future, America needs more school teachers, doctors, nurses, lawyers, librarians, and others whose efforts will not result in productivity gains as measured by the normal economic indexes. The objective in any society is to reduce the efforts devoted to the necessities of life so that there may be more amenities for everyone to enjoy.

The majority's report is concerned with the fact that "Since the 1954 recession, public policy has been concentrated primarily on curbing inflation." Such a course is not surprising in view of the fact that the Consumer Price Index rose by 47.6 percent from August 1945 at the end of World War II to the beginning of the Eisenhower administration in January 1953.

From the end of 1952 until November 1959, the Consumer Price Index has risen only 10.7 percent. While I deplore the inflation which has taken place in recent years, its magnitude is far less than in the preceding 6 years, and the concern of the administration and the Federal Reserve Board in curbing this insidious threat to the stability of our economy is more than justified. It is a great disservice to the American people to suggest any other course of action.

The authors of the majority's report gloss over the fact that the problem of inflation had reached major proportions during the previous administration. President Truman stated that it was incumbent upon the Federal Government to take a strong position to combat this evil. In his 1950 Economic Report, transmitted to the Congress on January 6, 1950, he said:

Late in 1948 we stood at the peak of the inflationary boom. It was clear that an eventual adjustment was inevitable before we would have a firm basis for stability and steady eco-

⁸ "National Policy for Economic Welfare at Home and Abroad," Doubleday & Co., Inc., Garden City, N.Y., 1955, p. 32.

conomic growth. During 1949 we met the test of that adjustment. Despite rough going for a few months, we made necessary changes with much less distress and difficulty than ever before. Today we are on firmer ground than we were a year ago.⁹

President Truman referred to rough going and the need for adjustment. In July of 1949, unemployment was 4,095,000 out of a total civilian labor force of only 63,815,000, or 6.4 percent of the total.¹⁰ When approximately the same level of unemployment was experienced in 1958, vast spending proposals were suggested which would have completely destroyed the stability of our currency, depleted our gold reserves, and made the recovery that we enjoy now impossible.

The majority's report states that in order to insure a high rate of growth without inflation, we must "Improve the structure of the economy by reducing concentration of market power and by increasing the mobilization of our resources." During the past 6 years, the Department of Justice and the Federal Trade Commission have been vigilant in curbing the misuse of economic power by business organizations. More antitrust suits have been filed and brought to a successful conclusion than in any other recent period in our history.

However, the majority's report is singularly silent on the growing concentration of power which exists in certain labor unions who not only have the ability to deprive our country of the goods produced by certain industries but even to force officials of the U.S. Government to make a settlement which is satisfactory to them. An eminent student of labor law, Dr. Sylvester Petro, in an article which appeared in *Fortune* in November 1959, said:

* * * The causes of our present unsatisfactory conditions lie in special privileges that have transformed unions from voluntary associations into coercive associations, and remedies must be tailored to those causes. Specifically, we must reaffirm the basic principle of the Taft-Hartley law, which holds that employees shall have the right to self-organization and to bargain collectively, and "shall also have the right to refrain from any or all of such activities * * *". To implement this principle of voluntarism we should withdraw from unions special privileges such as the union shop and the exclusive bargaining status that they obtain through the majority-rule principle. We should also amend Taft-Hartley to prohibit not just some forms of stranger picketing and secondary boycotts, but all forms. Finally, we should cut through the maze of administrative law that today denies to those injured in labor disputes direct access to the courts for injunctive relief. This means, in my judgment, repealing the Norris-LaGuardia Act, dismantling the National Labor Relations Board, and reestablishing in labor disputes due judicial process as it applies elsewhere in our society.¹¹

The real cause for increases in the price level was developed in Study Paper No. 2 entitled "Steel and the Postwar Inflation" by Otto

⁹ "The Economic Report of the President," January 1950, p. 1.

¹⁰ *Ibid.*, table C-9, p. 157.

¹¹ Petro, Sylvester, "Can Antitrust Curb Union Power?", *Fortune*, November 1959.

Eckstein, technical director of the Joint Committee study, and Gary Fromm of Harvard University. They said:

No analysis of steel wages would be complete without consideration of the role of the Federal Government. In three of the four bargaining crises since World War II, there was extensive intervention. In 1945-46, when wage and price controls were still in effect, a Presidential factfinding board recommended an 18½-cent wage increase, a figure that had earlier been rejected by the companies, but was accepted in February 1946 when tied to an Executive order raising the price of steel by \$5. The settlement of 1947 and 1948 occurred without Government intervention, though the subsequent price increases were criticized. In 1949, an ad hoc Presidential factfinding board was appointed, sidestepping the use of the new Taft-Hartley machinery. The substantial "package" recommended by this board was rejected by the companies, but after a 30- to 40-day strike, one of the companies broke the deadlock, signing for a package which was not identical but had the same general features and cost as the factfinding recommendations. Harbeson and Spencer conclude, "the gains for the steelworkers would have been much less" without Presidential intervention, given the recession conditions at that time.

In 1952, wage and price controls were again in effect. The Wage Stabilization Board recommended a very generous 30-cent package, which was rejected by the companies. After a long dispute between the White House and the companies, culminating in the seizure of the industry, a court ruling declared the seizure illegal. A 55-day strike was fought, more about the issue of the union shop than wages. The final settlement included most of the original package recommended by the board.

The next several settlements occurred without a strike and without Government intervention. In 1956, after a strike of 36 days, the largest package ever negotiated was accepted. This package specified a wage increase of 29 cents over the 3 years of the contract, plus 17 cents of fringe benefits, plus a cost-of-living clause which has cost 17 cents over the period—or a total of over 60 cents. Officially, the Government maintained a hands-off policy during this negotiation, but there were widespread newspaper stories that the industry was pressured behind the scenes to settle in an election year.¹²

Since payments to employees represent 69.6 percent of the national income, it is not surprising that prices will rise if wages are increased in this fashion.¹³ Their paper provides the basis to explain the inflationary pressures which have plagued the American economy ever since the end of World War II.

Throughout the majority's report there is a persistent preoccupation with the suggestion that the levels of employment and production would be higher if the Federal Reserve Board provided the banking

¹² Eckstein, Otto, Fromm, Gary, Study Paper No. 2, "Steel and the Postwar Inflation," Joint Economic Committee, 86th Cong., 1st sess., Nov. 6, 1959, pp. 19-20.

¹³ "The Economic Report of the President," January 1960, p. 169.

system with more funds and easier credit. Supposedly it could all be accomplished without inflation. However, in spite of the statements in the majority's report, our money supply as measured by total commercial bank deposits and currency in circulation has increased since 1952 by \$51.4 billion.¹⁴ In addition, commercial bank loans increased \$47.8 billion,¹⁵ mortgage debt outstanding increased \$99.8 billion,¹⁶ and consumer credit increased \$24.7 million¹⁷ in this same period. This would indicate that the conclusion in the majority's report stating that we must "make sure that final money demand for goods and services grows at a rate equal to the increase in the potential supply of them" has been more than fulfilled.

The American way of life has been envied by the citizens of other lands because of our material wealth which is higher than that of any other country and is also more equally distributed. More importantly, however, our entire economy is responsive to the wishes of consumers, investors, and employees who enjoy the freedom to make their own decisions. It would be a tragedy if the Federal Government attempted to adopt a master plan, which in essence would be required to effectuate the programs outlined in the majority's report. Economic progress does not require the conformity of all citizens to the dictates of a few self-appointed, handpicked academicians. The recommendations found in the majority's report become even more disturbing when examined in the light of the needs of national defense. It states that—

Changes in defense orders and purchases have been an important cause of economic instability in the postwar period. These changes should be based upon the Nation's longrun defense requirements, and not upon considerations of the debt limit or other narrow budgetary concerns. Changes in defense demands should be treated as signals that offsetting changes in taxes or other expenditures may have to be made if recessionary or inflationary strains are to be avoided.

No testimony from any responsible individual who appeared before this committee supports the view that our defense program has been keyed to considerations of the debt limit or other budgetary concerns. On the other hand, there have been frequent changes in program which, of necessity, have resulted in localized unemployment, the cancellation of orders, and dislocations to many communities. They did not occur because of a thoughtless administration, but were required by the competitive technological race in which our Nation is presently engaged.

A stable rate of defense orders and purchases which is suggested by the majority's report would necessitate our continuing to build B-36 bombers rather than Atlas missiles in order not to inconvenience anyone. Mr. Khrushchev would applaud this suggestion.

While the majority's report at one point urges minimizing changes in defense orders and purchases, at a later point it states:

We are not saying that defense orders must be maintained when the opportunity develops for their reduction, nor that

¹⁴ *Ibid.*, p. 202.

¹⁵ *Ibid.*, p. 203.

¹⁶ *Ibid.*, p. 209.

¹⁷ *Ibid.*, p. 207.

they should not be increased when the Nation's military requirements so demand.

At still another point it states:

* * * To improve Federal expenditure policy, we should put a high priority on:

* * * (1) better provision for defense, especially for missiles and for combat troops.

It would be more constructive if the majority's report explained how all these objectives were to be simultaneously achieved rather than merely to state that they were desirable. No Member of the Congress nor any responsible official in the executive branch of our Government is unaware of the need for economic stability here at home. However, our national security and the modernization of our weapons must always have top priority. There is little justification for a report which offers pious platitudes accepted by everyone with no solutions to the difficult problems which confront those who, under the Constitution, are charged with executing the decisions upon which our future as a nation rests.

The majority's report proposes that changes in taxes and spending programs be timed to coincide with major alterations in our defense program. This suggestion is completely unrealistic in that only the Congress can change the tax laws and this usually requires months to accomplish.

New spending programs should not be adopted merely to make jobs. Public works projects, once started, continue long after the defense program has become stabilized at a new level.

It is easy to criticize the actions of any administration, Republican or Democratic, but it is far more difficult to assume the responsibilities of providing leadership and maintaining continuing progress throughout our economy without infringing on the liberties and freedom of any of our citizens.

Inasmuch as the majority's report has been written in terms of the past 6 years with obvious political overtones, it is imperative that the American people are made aware of some of the salient facts concerning the remarkable progress that has taken place in our country since 1952, the last year of the previous administration.

At that time, the total civilian labor force consisted of 63 million people. Today it has grown to 69 million people.¹⁸ In 1952, even though we were in the midst of the Korean war, unemployment was 1.7 million. In 1959, it is 3.8 million, an increase of 2.1 million people.¹⁹

After allowing for the growth in the labor force of 6 million people, these figures show that new job opportunities have been created for 3.9 million people, a substantial achievement. It must be emphasized that war and human suffering were not the price America had to pay to create this additional productive employment.

President Eisenhower's Economic Report transmitted to the Congress on January 20, shows that unemployment as a percent of the civilian labor force for the years 1953 through 1959 has averaged 4.8 percent.²⁰ During a period when many of the fiscal and monetary

¹⁸ "The Economic Report of the President," January 1960, p. 176.

¹⁹ *Ibid.*, p. 174.

²⁰ *Ibid.*

schemes advocated in the majority's report were in vogue, and prior to the mobilization of our resources in World War II, unemployment ranged from a low of 14.3 percent of the civilian labor force in 1937 to a high of 24.9 percent in 1933.²¹

It is difficult to find any justification for the recommendations contained in the majority's report based on a long-range historical analysis of employment and unemployment data, which the resolution directed this committee to undertake.

Furthermore, in July of 1949 in President Truman's Midyear Economic Report, he stated that—

Employment is still high, but unemployment has been increasing and veterans and others leaving school are finding it much harder to obtain work than a year ago. Production is still high, but it is lower, particularly in some industries, than it was last year.²²

By conveniently considering the period since 1954, the majority's report is relieved of reviewing unpleasant facts which occurred during previous administrations.

The deficiencies in measuring economic growth have already been described, but certain fundamental data are available which show what has been accomplished during the period since 1952.

Our country has been growing at a phenomenal rate. The population has risen from 157 million Americans in 1952 to 178 million today,²³ an increase of 21 million people who have been housed, fed, clothed, and educated.

Per capita disposable personal income, that is, income after the payment of all taxes and in constant dollars, has risen from \$1,520 in 1952 to \$1,891 in 1959,²⁴ an increase of 24.4 percent, which is more than 3 percent compounded annually, a higher rate of growth than was previously accepted as normal in President Truman's 1950 Economic Report.

In addition, there are other basic data to show that the increase in our national income was largely distributed to wage and salary recipients.

In 1952, the national income totaled \$292.2 billion. In 1959, it was \$398.3 billion,²⁵ an increase of \$106.1 billion. Compensation of employees increased \$82.4 billion, or 77.7 percent of the gain.²⁶

In 1952 corporate profits before taxes were \$37.7 billion, and in 1959 they had increased to \$47 billion, a rise of \$9.3 billion, or only 8.8 percent of the increase in national income.²⁷

These data clearly show that the growth in our industrial activity has made it possible to employ more people than have ever worked in America before, who receive higher take-home pay after taxes. Yet, the investors who supplied the capital for this expansion received additional profits of only 8.8 percent of the increase in the national income.

²¹ "Economic Report of the President," January 1960, p. 174.

²² "Midyear Economic Report of the President," July 1949, p. 2.

²³ "Economic Report of the President," January 1960, table D-14, p. 171.

²⁴ *Ibid.*

²⁵ *Ibid.*, p. 166.

²⁶ *Ibid.*

²⁷ *Ibid.*

An economy which can perform in this manner is meeting all of the tests of serving the American people and providing a widely diffused prosperity.

The following table shows the growth in terms of statistical data, which deal with the material and cultural environment in which American citizens work and live. This provides the only true measure of growth.

It is significant that nearly all of the 12 indicators included in the table show a rate of growth on a compounded basis equal to or higher than the magic figure which was selected as appropriate in the majority's report.

The majority's report states that "From 1953 to 1959, industrial capacity grew by approximately 30 percent, but industrial output by only 15 percent." In order that there may be some slack in the economy so that production may directly reflect consumers' wants and that deliveries may be effected without protracted delays resulting in unemployment, there should be excess capacity in the American economy. For many years prior to 1953, Government economists were critical of the steel industry because it did not have this flexibility. Living standards as depicted in the table which follows immediately completely refute the charge that the American economy has not operated at its potential output.

Selected indicators of economic progress

	Units	1952	1958	Percent increase	Increase compounded from 1952
Estimated elementary and high school enrollment.	Thousands	¹ 29,058	¹ 37,451	28.9	Over 4½ percent.
Enrollment institutions of higher education (1953-58).	-----do-----	² 2,148	¹ 3,259	51.7	Over 8 percent.
Public elementary and secondary school instruction rooms built.	1-----	³ 48,000	⁴ 71,600	49.2	Over 6 percent.
Hospitalization, surgical and medical insurance estimated enrollment (1952-57).	Thousands.	¹ 217,699	¹ 340,478	56.4	Over 8 percent.
Life insurance in force-----	Millions of dollars.	⁵ 276,591	⁶ 493,561	78.4	Do.
New residential building (non-farm).	-----do-----	⁶ 12,842	⁶ 18,047	40.5	Over 5 percent.
Mutual savings bank deposits-----	-----do-----	⁷ 22,610	⁷ 34,031	50.5	7 percent.
Motor vehicle registration-----	Thousands	¹ 43,818	¹ 56,871	29.8	Over 4½ percent.
Television sets in use (1952-57)-----	-----do-----	⁸ 17,700	¹ 47,000	165.5	Over 8 percent.
Telephones in use-----	-----do-----	⁸ 48,056	¹ 66,639	38.7	Over 5 percent.
Electric power sales to residential customers.	Millions of kilowatt-hours.	⁹ 7,232	⁹ 13,254	83.3	Over 8 percent.
Steel capacity (1952-January 1959).	Net tons...	¹⁰ 108,588,000	¹¹ 147,600,000	35.9	4½ percent.

¹ Statistical Abstract of the United States, 1959, U.S. Department of Commerce, Bureau of the Census, 86th Cong., 1st sess., H. Doc. 79, 80th annual edition.

² Statistical Abstract of the United States, 1955, U.S. Department of Commerce, Bureau of the Census, 76th annual edition.

³ "Federal Aid to States for School Construction," hearings before the House Education and Labor Committee, 85th Cong., 1st sess., pt. 1, Feb. 4, 1957.

⁴ "Federal Grants to States for Elementary and Secondary Schools," hearings before the Senate Labor and Public Welfare Committee, 86th Cong., 1st sess., Feb. 4-6, 17, 20, 26, 27, Apr. 7-9, 13, and 15, 1959.

⁵ Life Insurance Fact Book, 1959, Institute of Life Insurance, New York.

⁶ "Economic Report of the President," January 1960.

⁷ Federal Reserve Bulletin, Board of Governors of the Federal Reserve System, December 1959, Washington, D. C.

⁸ Statistical Abstract of the United States, 1956, U.S. Department of Commerce, Bureau of the Census, 84th Cong., 2d sess., H. Doc. 334, 77th annual edition.

⁹ Business Statistics 1959 Biennial Edition, U.S. Department of Commerce, Office of Business Economics, Washington, D. C.

¹⁰ Annual Statistical Report, American Iron & Steel Institute, 1957, New York.

¹¹ American Iron & Steel Institute, weekly production release, Jan. 14, 1960.

II. GENERAL OBSERVATIONS ON POLICIES RECOMMENDED IN THE MAJORITY'S REPORT

The majority's report makes 12 generalized recommendations, one of which embraces 9 separate Federal programs. It is impossible to deal with all of these in supplemental views of any reasonable length. Certain objections to the approach in the majority's report, however, are in order. Each of the specific policies recommended are worthy of at least a brief discussion.

(1) The majority's report first recommends "monetary and fiscal policies that permit money demand to grow in line with supply." It has already been demonstrated in the introductory chapter that there has been no shortage of credit, currency, or demand deposits to permit the economy to operate in a satisfactory manner. In fact, legislation was introduced during this Congress, S. 64, to amend the purposes of the Employment Act by adding to the end of section 2 a new paragraph. This section now reads:

The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.²⁸

The new paragraph provides that:

The Congress further declares that the foregoing objectives must be attained, if they are to be meaningful, in an economy in which the level of prices remains relatively stable under free competitive enterprise.²⁹

It would appear that price stability must be accorded the same position in our national policies as maximum employment. Furthermore, S. 64 makes it clear that in providing purchasing power, it is to be done in the context of a "relatively stable price level under free competitive enterprise."³⁰

(2) The majority's report proposes policies including "management of our defense orders in such a manner that they do not cause serious instability in the economy." Again, in the introductory chapter it has been clearly shown that our defense program must be responsive to the military requirements which change with scientific advances, foreign alliances, and the military programs of those who might become potential enemies. The defense of our country is not a proper matter for consideration by the Joint Economic Committee.

²⁸ Bill analysis, 86th Cong., 1st sess., Rept. No. 14, Apr. 29, 1959, American Enterprise Association, Inc., Washington, D.C., p. 7.

²⁹ *Ibid.*

³⁰ S. 64, U.S. Senate, 86th Cong., 1st sess., Jan. 9, 1959, p. 2.

(3) The majority's report recommends "greater reliance on fiscal policy and less reliance on monetary policy for achieving any desired restraint on total money demand. This means that we should aim for higher budget surpluses during periods of prosperity and a lower level of interest rates than have been achieved in recent years." Fiscal policy implies changes in taxes to offset budget deficits or too-large surpluses. This requires legislation which can be enacted only after extensive hearings. Hence, changes in the tax laws do not provide an appropriate vehicle to stabilize the economy. Our present tax structure, however, does provide for a sharp decrease in Government revenues when either personal or corporate incomes fall. It also produces a much higher yield for the Federal Government when personal and corporate incomes rise. Likewise, it is difficult to coordinate changes in appropriations and expenditures with the movement of the economy. Again, in most cases, authorizing legislation is required, projects must be planned if new expenditures are to be made. It is difficult to believe that the majority's report is recommending the abandonment of worthy and necessary projects in order to reduce the demands on the economy at a time when inflationary pressures are rising.

(4) The majority's report, in this policy recommendation, includes a series of measures ranging from Federal aid to education to the rehabilitation of depressed areas. There are a total of nine such programs grouped under the platitude, "A comprehensive program for promoting the productivity of the labor force, for technical progress, and for facilitating the introduction of new technology." It is difficult to see how this broad group of programs bears any relation to the major topic.

Before discussing any of these specific items, it must be emphasized that when a program is undertaken by private industry or one of the States, it requires either taxes or personal savings to finance it. Only the Federal Government can create inflationary forces through the creation of new money when it engages in deficit financing. The programs enumerated in this section of the majority's report, if enacted, would add to our present deficits or increase the tax burden so that capital formation to provide the basis for our productivity gains would be lessened.

(a) The first of these nine programs proposes Federal aid to education. President Eisenhower in his Economic Report, transmitted to the Congress on January 20, 1960, reviewed the efforts of all levels of government, local, State, and Federal, as well as the work of private groups in the field of education. The President's Economic Report stated that:

* * * In the last 10 years, total public and private expenditures for education have almost tripled, reaching \$22 billion in 1959; the number of teachers in elementary and secondary schools has increased by 450,000, and their average compensation has risen by 71 percent.³¹

The administration, for several years, has urged the Congress to enact a program to eliminate such current deficiencies as may exist in our educational needs. In his state of the Union message, President Eisenhower in referring to the administration's program stated that:

³¹ Op. cit., "The Economic Report of the President," January 1960, p. 63.

* * * It is designed to stimulate classroom construction, not by substitution of Federal dollars for State and local funds, but by incentives to extend and encourage State and local efforts.³²

The Congress has taken no action on the President's plans which have been under consideration since the 84th Congress.

(b) The majority's report proposes that the Federal Government "provide a national scholarship program." The 85th Congress, in order to bring new resources and encouragement to our educational system, enacted the National Defense Education Act which provides a Federal program to stimulate the development and increase the number of students in science, engineering, mathematics, and modern languages. This action also provides additional facilities for teaching, promoting the development of technical skills essential to national defense, and assisting teachers to increase their knowledge and improve their effectiveness in these fields. Title II of the act authorizes a total of \$295 million for a 4-year period for scholarship loans to worthy and needy students.³³ The President's Economic Report states that:

* * * Other programs include graduate and faculty fellowships, institutes for college and high school teachers of science and mathematics, traineeships, and grants for research and equipment. In the current school year, about 100,000 college students, almost three times as many as last year, are expected to make use of the loan funds established under this act.³⁴

Furthermore, he stated that:

* * * Expenditures for education and training of veterans, currently requiring nearly \$450 million, will amount to a little more than \$300 million in the fiscal year 1961.³⁵

The Congress and the administration in supporting this legislation have already taken an important forward step in implementing a scholarship program directed at "technical progress."

(c) The majority's report also proposes that the Federal Government "strengthen Federal programs of medical research and of vocational rehabilitation." Again, President Eisenhower, in his Economic Report to the Congress, reviewed the progress which has been made in this important area in the last 10 years. He said:

Public and private expenditures for health and medical care have almost doubled during this period—from more than \$12 billion to about \$24 billion. Annual Federal expenditures for health and medical programs rose from about \$700 million to \$1.5 billion, and State and local expenditures increased from \$1.7 billion to well over \$2.5 billion.³⁶

³² Congressional Record, House of Representatives, 86th Cong., 2d sess., vol. 106, No. 2, Washington, D.C., Jan. 7, 1960, p. 139.

³³ National Defense Education Act of 1958, Public Law 85-864, 85th Cong., 2d sess., Sept. 2, 1958, p. 4.

³⁴ Op. cit., "The Economic Report of the President," January 1960, p. 63.

³⁵ Ibid.

³⁶ Op. cit., "The Economic Report of the President," January 1960, p. 63.

He also said:

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

Finally, a program involving Federal expenditures of nearly \$1 billion in the fiscal year 1961 serves veterans eligible for hospitalization and other medical benefits under existing laws.³⁷

It will appear that the Federal Government is already expending a substantial share of its budgetary receipts on medical research. Insofar as vocational rehabilitation is concerned, this, too, has not been neglected. Again, the President's Economic Report shows that a program of vocational rehabilitation for ex-servicemen having service-connected disabilities will be recommended to the Congress.³⁸

(d) The majority's report proposes that the Federal Government "strengthen the private and public apprenticeship programs." Again, it appears to be oblivious of the fact that Federal assistance for vocational educational programs began in 1917. The 1961 budget recommends new obligational authority for the next fiscal year for vocational education in the amount of \$69 million. Actual budget expenditures in this fiscal year are estimated at \$67 million.³⁹ The budget message shows, however, that these programs should decrease in future years. It states:

* * * The need for Federal assistance in the vocational education programs begun in 1917 for the purpose of stimulating training in agriculture, home economics, industrial trades, and distributive occupations is not as great as for promotion of training in new science-age skills. Thus as increased funds for training needs in new skills are provided under the National Defense Education Act, Federal assistance for the older programs is being reduced by a corresponding amount.⁴⁰

This appears to be a proper policy.

(e) The majority's report states that the Federal Government should "continue and increase support of scientific research, especially basic research, even in the event that the strictly military needs for advancement in science diminish." Again, the authors of the majority's report are apparently unaware of the programs which have been undertaken over a period of many years by the National Science Foundation and other Federal agencies to advance our fundamental knowledge in the pure sciences with no regard to immediate application for defense purposes. Apart from any Federal activities to advance research, however, the private sector of the economy has pro-

³⁷ *Ibid.*, p. 64.

³⁸ *Ibid.*, p. 63.

³⁹ "The President's Budget Message for 1961," Jan. 18, 1961, p. M56.

⁴⁰ *Ibid.*, p. M57.

vided an important impetus for our acknowledged technological superiority in most fields of endeavor. The President in his Economic Report stated that:

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

The predominant share of the Federal funds for research and development is devoted to military projects; but, even so, the benefits obtained from them by the civilian economy have been, and will remain, impressive. The billions of dollars spent annually for procurement and construction under programs of the Department of Defense and the Atomic Energy Commission likewise have a peacetime value apart from their immediate contribution to the Nation's security. Many areas of defense spending that will continue to influence civilian technology may be cited—for example, the development and production of aircraft and missiles, data-processing machines, electronic communication and control equipment, high-energy fuels, unconventional devices for generating electrical energy, solar furnaces, and metallic and other materials meeting strict performance requirements under stress and at extreme temperatures.⁴¹

It would appear that the majority's report is making no unique contribution by suggesting that the Government engage in activities in which it has been a major participant for so long a period of time.

(f) The majority's report proposes that the Federal Government "set up national productivity centers for raising productivity in the low-wage, low-productivity industries and services in the economy." Again, these objectives are not defined, and the methods appropriate to increase productivity in a manufacturing operation would not be applicable in the service trades, in agriculture, or in the communications industry. Under our free enterprise system, productivity increases are the result of better methods developed in each individual firm, by organized labor, or community efforts, as well as colleges and universities through independent initiative. The development of a new Federal bureaucracy charged with these functions would entail additional expense to the taxpayer with no visible accomplishments in sight.

(g) The majority's report proposes that the Federal Government "encourage the institution of collective bargaining in a form that allows for the introduction of new technology and which promotes

⁴¹ Op. cit., "The Economic Report of the President," January 1960, p. 61.

an equitable sharing of the inevitable social costs of technological change." It has long been our accepted policy that collective bargaining in its very essence involves a meeting of the minds between the parties directly affected. There is no place in the American free enterprise economy or in our labor movement for a dictated settlement of labor disputes and determination of the rightful share of increased productivity by Government, which implies compulsory arbitration. Responsible labor leaders as well as management groups have on many occasions expressed their strong objections to compulsory arbitration in any form.

(h) and (i) The majority's report proposes that the Federal Government "provide unemployment benefits and retraining for workers laid off because of technological change, with benefits related to seniority" and "establish special programs for the rehabilitation of depressed areas." The majority's proposals were embodied in the Area Redevelopment Act, S. 722, which was passed by the Senate on March 23, 1959, by a vote of 49-46.⁴² I voted against this bill, which provides \$389.5 million, which would include loans for public facilities in depressed industrial areas, as well as in rural low-income areas; loans for public facilities; grants for public facilities; as well as \$10 million in weekly payments to workers undergoing retraining in depressed areas, and \$4½ million for technical assistance and information.⁴³

The administration has long been aware that there are certain areas which have suffered from chronic unemployment, and it has proposed a far more modest program in the amount of less than \$60 million entirely in loans to meet the real needs of these areas. The Senate bill is now before the House, and it is unlikely that it will be acceptable to the administration. By insisting on this elaborate and expensive program, aid for areas suffering from chronic unemployment will be indefinitely delayed. Those who insist on grandiose solutions to modest problems prevent the enactment of needed legislation which would meet essential requirements without imposing undue burdens on future taxpayers.

The majority's report dwells at length on further proposals including increasing expenditures for activities such as education, research, and health programs. As has already been indicated, present expenditures are substantial. It is significant that no specific suggestions on how much they should be increased is provided in the majority's report.

(5) The majority's report proposes "* * * the reduction of subsidies for agriculture and business, and the pruning of wasteful Government activities." Certainly, no conscientious citizen favors supporting wasteful Government activities. The farm problem is one which has been before the American people for many years. The Congress has refused to enact the legislation requested by the administration during the past session which would have made an important contribution toward reducing the magnitude of these continued farm subsidies. Other programs which presumably support business are not defined in the majority's report, and, hence, it is impossible to comment intelligently with respect to them.

(6) The majority's report proposed policies to "reform the Federal tax system to make it fairer, less obstructive to economic growth, and

⁴² Congressional Record, U.S. Senate, 86th Cong., 1st sess., vol. 105, No. 47, Washington, D.C., Mar. 23, 1959, p. 4438.

⁴³ *Ibid.*, p. 4436.

more productive of revenue." This generalized statement is acceptable to everyone, but the specific proposals for tax reform which are enumerated in later sections of the report would obstruct economic growth and limit employment opportunities. They will be discussed at an appropriate point in these supplemental views.

(7) The majority's report proposes that the Federal Government can "revise monetary policy so that we may have a growth in the money supply in line with the growth in total output and increase the effectiveness of monetary action." As has already been indicated in the introductory section of these supplemental views, our money supply has expanded considerably in recent years. In addition, there has been ample credit available to worthy borrowers. Too much emphasis is placed in the majority's report on the need to make loans available to individuals and business firms. Rather than borrowed money, they need an opportunity to accumulate savings from their productive endeavors to finance their personal and business requirements adequately. A reduction in Federal expenditures accompanied by lower taxes would be far more beneficial in advancing the economic security of all of our citizens than a continuing rise in the money supply.

(8) The majority's report proposes that the Federal Government "put greater reliance, to the extent possible, on selective policies which will curb excess demands in certain industries without causing general unemployment." Such a course necessarily involves that a Federal agency would decide which industries were to be favored and which were to be retarded. It is contrary to the philosophy of a free competitive economy. It is consistent with a system of regimentation and Government planning. The Employment Act of 1946 provides that it is the continuing policy and responsibility of the Federal Government to promote "a free competitive economy."⁴⁴ Any attempt at selective policies favoring one industry and handicapping others is completely inconsistent with the mandate of the Congress.

Furthermore, the wages received by the employees and the dividends received by the stockholders of the favored industries in a free society might be spent for the products of those industries that are being restrained. Free consumer choice is thus automatically abandoned under this suggestion.

(9) The majority's report proposes that the Federal Government "carry out a more vigorous and more effective antitrust policy, and, first, attempt to restrain groups that possess market power by voluntary methods and, second, take whatever steps in the way of hearings and factfinding that may prove necessary." This particular suggestion lends support to a bill which was considered by a Judiciary Subcommittee during the last session of the Congress; namely, S. 215, introduced by Senator O'Mahoney on January 12, 1959. It provides that:

In any line of commerce in which 50 per centum or more of the total annual sales in the United States are made by eight or less corporations, including their respective subsidiaries and affiliates, no corporation included in such group, and having capital, surplus, and undivided profits in excess

⁴⁴ Congressional Record, 79th Cong., 2d sess., vol. 92, pt. 13, S. 380.

of \$10 million shall increase the price of its product in such line of commerce until the expiration of a waiting period of 30 days after delivery of notice of a proposed price increase to the Federal Trade Commission, the Attorney General, the Speaker of the House of Representatives and the President of the Senate for publication in the Federal Register and the Congressional Record.⁴⁵

Following this procedure, hearings would be held and confidential cost data would be revealed to competitors, both foreign and domestic. While at first it appeared that this legislation would only affect a few major industries, an analysis of the census classification of industries meeting these criteria contained in a study prepared for the Senate Antitrust and Monopoly Subcommittee shows that over 600 different product classifications would fall within the definition of this measure. The affected products range from pickles and baby foods to steel and automobiles. Needless to say, no firm with adequate resources while it is still earning any profits whatsoever would voluntarily submit its confidential internal data to public scrutiny. Hence, marginal firms with limited resources would be unable to raise their prices while their larger and more successful competitors were reluctant to do so. If this legislation were enacted into law, it would undoubtedly result in further concentration through the bankruptcy of numerous small firms. It is difficult to reconcile such a proposal with our fundamental antitrust philosophy.

(10) the majority's report proposes that the Federal Government "reduce tariffs gradually." The Trade Agreements Act of 1958 provides ample authority for the President to take such action through 1962 and until these powers have been exhausted and the economy has made the necessary adjustments to any further changes in our tariff structure, this proposal has no real meaning or significance.

(11) The majority's report proposes that the Federal Government "revise our farm policy: including more research to find new uses for farm products." This generalized statement provides no guidance as to what is intended. The Congress has consistently supported programs to reduce surpluses and to further research to find new uses for farm products. It will take more than pious words, however, to accomplish these difficult objectives.

(12) Lastly, the majority's report proposes that the United States "improve our foreign trade position." This statement might mean almost anything that the reader would care to attribute to it. It is so vague and subject to so many possible interpretations that it would be futile to attempt to make any specific comments with reference to it.

In short, the proposals contained in the majority's report either support existing programs which are already in effect and are functioning, or they urge the enactment of measures which have failed to receive favorable consideration by the Congress or the administration because they are inconsistent with the concepts that should underlie any legislative action in conformity with the Employment Act of 1946, the basic guide for this committee.

One thing is clear: Most of the policies set forth in the majority's report would entail additional Federal spending leading to more inflation, price instability, and eventually, unemployment.

⁴⁵ S. 215, 86th Cong., 1st sess., Jan. 12, 1959, pp. 2-3.

III. SPECIFIC COMMENTS ON MATTERS WITHIN THE PURVIEW OF THE JOINT ECONOMIC COMMITTEE

The majority's report has failed to confine its scope to the problems entrusted to the Joint Economic Committee in Senate Concurrent Resolution 13, but instead has made recommendations on numerous subjects which fall within the jurisdiction of other congressional committees. In many cases, extensive hearings concerning these matters have been held at great expense to the taxpayer. Reports have been filed, and legislative action has taken place in either the House of Representatives or the Senate. These subjects include housing, Federal aid to education, area redevelopment, national defense, labor policy, as well as problems of racial discrimination, migrant farm-workers, and American Indians, to mention but a few. A lack of specific comments concerning these subjects does not indicate an acceptance of the views contained in the majority's report, but rather a complete disapproval of the infringement on the jurisdiction of other congressional committees by the staff of the Joint Economic Committee in its preparation of the majority's report.

Since the committee was charged with a study of economic growth, monetary and fiscal policies, even though they fall within the jurisdiction of the Senate Finance Committee, are proper subjects for review by this committee. This approach is also justified in connection with antitrust and pricing problems which have traditionally been of concern to the Joint Economic Committee. An effort will be made to reveal some of the inconsistencies and errors presented in the majority's report relating to the following specific areas:

1. The recent behavior of prices.
2. Fiscal policy.
3. Monetary policy.
4. Debt management.
5. Federal reserve policy.
6. Antitrust and price prenotification.
7. Tariffs.
8. The farm problem.
9. International affairs.

IV. DETAILED DISCUSSION OF VIEWS CONTAINED IN THE MAJORITY'S REPORT ON ECONOMIC SUBJECTS

A review of the nine areas appropriate for this study follows:

1. *The recent behavior of prices*

The majority's report states that consumer prices "rose at an annual rate of 1.6 percent, wholesale prices at 1.3 percent, and the gross national product deflator at 2.2 percent. These increases were largely concentrated in the period 1955 to 1957." It also suggests that these relatively small movements in the indexes fall within the margin of statistical error. The majority's report states:

In order to interpret these movements of the price indexes, their limitations must be kept in mind. The failure of the indexes to reflect changes in quality and the methods of introducing new products give some upward bias to these indexes. These biases are not sufficient to explain away all of

the increase in the index. But it should be stressed that small changes in the indexes, on the order of 1 percent a year, fall within the margin of statistical error.

In attempting to appraise the impact of inflation, the Congress and professional economists have relied primarily on the two series of prices prepared by the Bureau of Labor Statistics—the Consumer Price Index and the Wholesale Price Index. They are carefully assembled, and these criticisms are not directed at the integrity of the dedicated personnel of the Bureau of Labor Statistics who long have endeavored to develop useful and accurate measures of price changes.

However, particularly in the case of the Consumer Price Index, a grave doubt arises as to whether it actually reflects increased prices or is influenced by changes in the quality of the articles and services which are priced. The index not only includes many standardized articles with detailed specifications, but other products such as automobiles, tires, television sets, and radios characterized by rapid technical improvements which enhance value and quality. In many instances a price increase accompanied by an even larger improvement in quality may actually represent a price decrease for the consumer. The index as presently constructed does not reflect quality changes. There are many conceptual difficulties in meeting this problem, but before blindly accepting that a rise in either index is indicative of new inflationary pressures, these qualifications must be raised.

Among many services, medical care is included in the Consumer Price Index. The value of this service to patients has changed drastically during recent years through the development of new techniques. The availability of pharmaceutical products which were unknown but a few years ago as well as expensive and elaborate diagnostic procedures have lengthened our lifespan. Many people are at work today who would have died years ago if the quality of medical care had not improved. Yet the Consumer Price Index does not reflect this fact.

There are still other statistical procedures which have not received adequate consideration. The introduction of new models poses a problem in properly reflecting prices. The Bureau of Labor Statistics on Tuesday, December 23, 1958, announced that the Consumer Price Index for November 1958, had increased because "Price tags on new model autos were 4.2 percent above a year ago." In the months immediately preceding, the Bureau was pricing 1958 models, some of which were undoubtedly still available in dealer's stocks. The question may fairly be asked as to whether the index rose when new models were announced or whether, if prices had continued to be collected on the remaining 1958 cars still in stock, it might not have declined. This question is justified by the fact that the Commissioner of Labor Statistics, Mr. Ewan Clague, on that date stated: "Automobile prices should go down in the months ahead because of dealer discounts."

It is perhaps also not generally understood that excise taxes are included in the Consumer Price Index, so that whenever the Congress decides to finance a needed program such as highway construction, through the imposition of an excise tax on gasoline or some similar product, the Consumer Price Index will rise.

These statements are made not to criticize the procedures of the Bureau of Labor Statistics, as no acceptable alternatives have been

offered, but merely to place the relatively minor price increases during the past 6 years in their proper perspectives.

The majority's report is concerned that business investment as well as consumer investment in durable goods "has also come in sudden bursts."

Investment in durable goods, particularly the establishment of a new plant, requires integrated facilities, and by their very nature the entire investment must be made at one time. In the case of consumer durable goods, because their purchases can be deferred until individuals believe that they have a margin of savings, it has always been characteristic for these purchases to be made in periods of recovery unless rationing and Government planning of facilities is to be substituted for a free market. These instabilities in demand are a price most of us are more than willing to pay to insure freedom.

The majority's report curiously states that "Business was also encouraged to incur large fixed capital, research, and administrative costs by the sharp upswing of 1955." Yet, these very expenditures for research have provided the technology for today's new products. It is impossible to reconcile this criticism with the policy recommendation that we should "Continue and increase support of scientific research, especially basic research, even in the event that the strictly military needs for advancement in science diminish."

If this research is conducted privately, there will be more competition and probably better results. But regardless of whether it represents a direct expense to business firms or is paid by the taxpayers, it must ultimately be reflected in prices.

2. *Fiscal policy*

The majority's report implies that a greater reliance should be placed on fiscal policy rather than on monetary policy. This is unrealistic, since fiscal policy cannot be rapidly responsive to changing economic conditions as is the case with monetary action instigated by the Federal Reserve Board. Fiscal policy must require either changes in our tax laws or in Government appropriations. In either case congressional action is required, and this necessarily is protracted.

The majority's report stresses the need for tax reform. The first substantial effort to remove some of the inequities which developed during wartime were embodied in the Revenue Act of 1954, passed by the 83d Congress. In spite of a substantial reduction in the tax rates and additional incentives for capital formation, Budget receipts have risen from \$60 billion in the 1955 fiscal year to an estimated \$84 billion during the 1961 fiscal year, an increase of \$24 billion.⁴⁶

Economic growth requires prompt tax reform so as to insure a continued growth of equity capital and to provide adequate rewards and incentives for venturesome undertakings. These are not present under today's almost punitive tax rates. While tax reform must necessarily await a halt in unnecessary Government spending programs and a start at debt retirement, the objectives which should underlie our future tax policies were clearly set forth by the chairman of the House Ways and Means Committee, Representative Wilbur D. Mills. Under the Constitution all revenue measures must first

⁴⁶ 1961 Federal Budget in Brief, Bureau of the Budget, Executive Office of the President, Jan. 18, 1960, p. 43.

be reported from this committee. Mr. Mills outlined the objectives that should guide the Congress, as follows:

1. A tax climate more favorable to economic growth.
2. An income tax under which the fundamental maxim that people with the same income should pay the same tax will be more fully observed in practice.
3. An income tax which interferes as little as possible with the operation of the market in deciding how our national resources—human and material—can best be employed.
4. Assurance that tax burdens will be as fair as possible.
5. An income tax which will respond promptly and vigorously to changes in economic conditions in order to restrain both inflation and recession.
6. An income-tax law with which taxpayers can readily and inexpensively comply and which can be efficiently and fairly enforced.⁴⁷

Furthermore, it is generally agreed that a more realistic policy must be adopted with respect to depreciating long-lived capital assets.

On January 7, 1960, the Select Committee on Small Business of the U.S. Senate in Report No. 1017 stated the conclusions and recommendations it had developed as a result of its hearings devoted to this problem. They are set forth as follows:

1. Present depreciation policies do not sufficiently encourage the expansion of the national economy. Indeed, those policies have, in all probability, stifled economic growth.
2. The twin problems of inflation and technological obsolescence have become increasingly significant in recent years. In combination, they have made our depreciation policies completely out of date, though these policies may have been reasonable and perhaps necessary in the 1930's.
3. Small firms, particularly, suffer from current depreciation policies in spite of recent congressional efforts to overcome several of the tax features that discriminate against them. Because of their limited capital resources and the difficulties and expense of obtaining further capital from new sources, they feel the greatest impact from under-depreciation.
4. Rapid amortization of "defense facilities" in periods of emergency is an inadequate substitute for a realistic long-range depreciation policy. Such amortization encourages cyclical rather than orderly growth of industrial capacity. Furthermore, rapid amortization certificates have been much more difficult for small manufactures to obtain than for the industrial giants. A liberalization of depreciation policies applicable to all firms—in "normal" and "emergency" periods alike—would a far more equitable approach to the preparedness for defense capacity problem.
5. Substantial liberalization of depreciation policies should be coupled with elimination of capital gains treat-

⁴⁷ Mills, Wilbur D., "How Your Income Taxes Can Be Cut," *Nation's Business*, vol. 47, No. 11, November 1959, p. 71.

ment for machinery and equipment used in a trade or business. New depreciation policies should be directed toward the stimulation of economic growth and should not be permitted to foster early disposal of assets for capital-gains advantages.⁴⁸

It is clear that these conclusions are directed toward economic growth which is the subject to which the Joint Economic Committee study should have been directed.

The specific proposals set forth in the majority's report have all been rejected by the Congress within the past year. They include the following items:

1. Repeal of the dividends-received credit and exclusion. * * *
2. Provide for the withholding on interest and dividend payments. * * *
3. Rigorously limit employee expense accounts. * * *
4. Limit the types of income to which capital-gains treatment is given to true capital gains. * * *
5. Progressively reduce the percentage depletion rates allowed on oil and gas. * * *
6. Improve the enforcement of the income tax laws. * * *

These proposals were presented to the Secretary of the Treasury by the chairman of this committee on September 2, 1959. The Under Secretary of the Treasury, the Honorable Fred C. Scribner, Jr., analyzed the reasons why new laws would not be in the public interest. The position of the Treasury on these points should be available to readers of the majority's report and, accordingly, Mr. Scribner's letter to the chairman of this committee follows.

UNDER SECRETARY OF THE TREASURY,
Washington, D.C.

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

MY DEAR SENATOR DOUGLAS: This letter is in further reply to your letter of September 2 to the Secretary and signed by you and Senators McCarthy, Clark, and Proxmire. Your letter addressed itself to the possibility of increasing tax collections by Revenue Code changes and by a step-up in enforcement to allow a more intensified search for unreported income. Your stated objective of finding means and methods to improve the enforcement of the Federal tax laws is one which we most certainly share.

The Treasury Department has under constant review a multitude of proposals for revision of our tax structure to remove inequities, to increase the revenue yield and to enhance incentives for all Americans to work, save, and invest. Last January, for example, the President asked that the rules for computing percentage depletion be revised to prevent the unintended extension of percentage depletion allowances to the sales price of finished products. Corrective legislation in this area has not been enacted although substantial revenues are in-

⁴⁸ "Tax Depreciation Allowances on Capital Equipment," report of the Select Committee on Small Business, U.S. Senate, 86th Cong., 2d sess., No. 1017, Jan. 7, 1960, p. 10.

volved, and the Treasury believes that the need for legislation is readily apparent.

Specific proposals for corrective revision of the law on taxation of cooperatives and their patrons were also submitted to Congress last January, but no action has resulted.

In the expenditure areas, Budget Director Stans has cited to us the fact that the President made 18 specific proposals to adapt Federal spending programs to changed situations and has pointed out that these, too, received little attention from the Congress.

We believe that these changes could contribute measurably toward sound budgetary objectives, and we trust that they will have your active support during the 2d session of the 86th Congress.

Your letter contained seven specific proposals. One of these would require second-class users of the U.S. mails to pay for the full cost of their use of the mails. The position of the administration on this proposal was set forth in a letter to you and your associates from Budget Director Stans under date of September 24. We associate ourselves with the Budget Director in his reply to this item.

The five items which you have discussed calling for changes in the tax laws or in regulations issued thereunder all deal with matters which are to be covered in detail by the Ways and Means Committee in hearings to begin in November. Many experts and students in the tax field have been asked to submit detailed studies covering the items which you have discussed. Helpful information will be produced at these hearings and these studies will give us a sounder basis for measuring the worth of the matters which you have submitted.

However, we do wish to reply to each of your suggestions, based on our position at this time but subject to changes in our views which may result from the information made available by the Ways and Means Committee studies.

(1) *Requiring that income taxes on dividend and interest payments be withheld at source.*—Studies made in the past both by the Treasury Department and by outside sources indicate that a substantial gap does exist between dividends and interest paid to individuals and dividends and interest reported by individuals on personal income tax returns. While there is some dispute as to the exact amount of the gap, there is, we believe, agreement that it is substantial. However, there is much uncertainty as to how much of the unreported dividends and interest would be taxable if reported.

For example, individuals are now entitled to a dividend exclusion of \$50. It is known that some individuals who receive less than \$50 in dividends do not report such dividends on the assumption that since they are less than the amount of the exemption it is not necessary to report the dividends on the tax returns. While such dividends should be reported, a correct reporting would not result in additional tax.

In the interest field it is believed that a large portion of the non-reported interest is paid to those who because of the additional personal exemption allowed for all over 65, retirement income credits or other exemptions or credits, are either in a nontax bracket or in a very low tax bracket. Further studies are being made at this time to attempt to arrive at proper estimates of the amount of additional tax which would be collected if all dividends and interest paid were properly reported.

It appears that some of the nonreporting in the interest field is due to an erroneous assumption that interest credited but not withdrawn is not taxable. We are working with various interest paying associations to develop educational programs which will remove any misunderstanding which may exist. Changes have also been made in the tax forms and taxpayer instructions for the year 1959, and we believe these steps will be helpful in reducing the nonreporting gap. A special study is now being made of the tax forms directed to possible additional changes in the forms for 1960.

We also are engaged in joint studies concerning voluntary action which may be taken by those paying dividends and interest to assure proper reporting of amounts paid and the proper payment of taxes due.

Proposals to extend the withholding at source program to interest and dividends have been considered by the Congress and the Department on various occasions in the past. Each time that the subject has received consideration, it has been recognized that withholding on dividends and interest would create hardship due to withholding in the case of tax-exempt institutions, and nontaxable individuals and overwithholding in the case of elderly and retired persons, many of whom would be in low-income brackets. Hardships would arise if individuals were deprived of overwithheld funds until such time as claims were filed and processed and refunds were paid. Legislation designed to avoid overwithholding by setting a realistic ceiling under which amounts distributed would not be subject to withholding might well render the legislation ineffective.

To summarize, withholding legislation can be enacted. However, it will further complicate our tax structure, will add to the expenses incurred by dividend and interest-paying organizations and, because of the delays and necessary technicalities of refund procedures, may tend to discourage savings. We believe that every effort should be made to work out effective voluntary means of eliminating the gap between dividends and interest paid and dividends and interest reported before legislation is enacted which would provide for mandatory withholding at the source of income taxes on dividend and interest payments.

(2) *Tightening the rules concerning the deduction of "ordinary and necessary" business expenses, especially in the luxury expense account and business gift areas.*—Under existing statutes, "ordinary and necessary" business expenses may be deducted for the purpose of determining the net income of business taxpayers. Difficulties have been created for the Revenue Service by a number of judicial decisions holding expenses disallowed by the Service to be "ordinary and necessary," and therefore deductible. Many of the cases frequently cited as glaring examples of the improper allowance of business deductions involve court decisions and not rulings by the Revenue Service.

We are here concerned with business morals. Our experience is that the great bulk of business organizations have strict, equitable rules concerning business expenses and do play fair with the Government. The trouble is caused by a small minority of business organizations which do allow items to be deducted as business expenses which clearly do not qualify as such. The problem is to make rules which will be effective in preventing abuse by a few without imposing

expensive and time consuming burdens on the great majority who have been consistent in properly operating their companies and properly reporting their expenses and profits.

In the 1958 tax returns the burden for properly auditing employees' expense accounts was placed on the employers by a proviso that if an employee does not receive from his employer payments for expense in excess of expenses incurred and the employee is required to report fully to the employer, the employee is not required in his tax return to duplicate the accounting which he gives to his employer. The checking here is then done through the employers' records. This procedure is intended to relieve the burden on employees while still making certain that full auditing takes place. It will only be effective if employers do, in fact, insist on accurate and complete expense accounts and carefully check the same. The Revenue Service is now engaged in studying the results of this approach as disclosed by the 1958 tax returns. Following the auditing of the 1958 returns the Service will be in a position to evaluate the effectiveness of this method of control.

You are, of course, familiar with S. 2040 which, if enacted, would have disallowed certain entertainment expenses specified therein. Under this bill no deduction would have been permitted for the expense of entertainment at night clubs, theaters, sporting events, or other places of public amusement. The bill would also have disallowed expenditures for the maintenance or operation of yachts, or vacation lodges, for gifts, for dues and initiation fees in country clubs or other social organizations and for traveling expenses to conventions outside the United States.

The denial of a tax deduction for expenditures which the taxpayer can prove were incurred as a necessary business expense rather than as a personal expense is contrary to the existing concept of an income tax on net income. Moreover, to impose such a rule on certain types of business expenses and with respect to certain classes of taxpayers would justify a charge of discrimination.

Such a major change in the tax law should be undertaken only after full consideration of all of the problems involved. We believe that the hearings before the Ways and Means Committee which will be concerned with these problems will provide helpful material on this very subject. You can be sure that we welcome the opportunity to work cooperatively with the Ways and Means Committee and with you and others to develop solutions in this area and, if it is ultimately concluded that legislation is necessary, to work out appropriate legislation which would be effective.

As Commissioner Latham has already told you, the Revenue Service is making every effort to make certain that only proper and reasonable deductions are allowed. The Commissioner tells us that he believes he is making progress, and for the present we believe the matter should continue to be handled by the Commissioner through regulations, rulings, and auditing procedures.

(3) *Narrowing the types of income accorded favored capital gains treatment.*—We believe that there is validity in the criticism directed by many at weaknesses in the provisions of the law taxing capital gains. Several months ago the Treasury suggested that consideration be given to a change in the law which would treat gain from the sale of depreciable personal property used in business as ordinary

income to the extent of the depreciation previously taken on the property.

A comprehensive review of the whole capital gains structure, including the rate and percentage of gain recognized, the holding period, the offset of capital losses, and the general definition of capital gain would be helpful. The many special provisions in the code giving capital gains treatment to income from particular assets and transactions could be reviewed to advantage in order to determine their validity in the light of equity, fairness, and economic needs. Any review should give careful study to the wisdom of continuing to accord capital gains treatment to special areas, such as the above-mentioned depreciable property used in business, unharvested crops, certain lump sum pension settlements, patents, timber and coal, stock options, and the like.

We assume that your proposal to narrow the type of income afforded favorable capital gains treatment has reference to some or all of these items. We believe a comprehensive review of the tax on capital gains would be in order at this time. Legislation in this area should not be proposed without a careful consideration of the economic impact of proposed changes and the effect of such changes on the whole capital gains structure.

(4) *Elimination of the 4-percent dividend credit.*—The Treasury Department does not favor repeal of the 4-percent dividend credit. This credit, authorized in the first instance by the Internal Revenue Code of 1954, deals with a longstanding feature of our tax laws which has resulted in double taxation of dividend income. Under existing law the earnings of a corporation are taxed twice—once as corporate income and again as income to the individual shareholder when paid out as dividends. This is due to the fact that dividends, unlike interest, do not constitute a deduction to the corporation which pays the dividends. The resulting double taxation imposes a higher combined tax burden on distributed corporation earnings than on any other form of income. The 4-percent dividend credit affords partial relief from this double taxation.

A dividend credit is desirable not only for reasons of fairness and equity but also because it encourages more widespread stock ownership. Further, it tends to encourage equity financing in lieu of borrowing.

It is encouraging to note that in the last 5 years the number of individuals owning shares of stock has increased by more than 4 million. Most of these own very few shares of stock and are truly small taxpayers. We believe that enactment of the 4 percent dividend credit was a step in the right direction. We know of no developments which have occurred since the adoption of the 1954 code which lead us to believe that a change in our position on this particular credit is desirable.

(5) *Reduction of the rate for oil, gas, and other mineral depletion allowance for oil, gas, and other minerals.*—This is one of the important subjects which will be considered by the Ways and Means Committee in its fall inquiry.

The Congress established the rate of percentage depletion for oil and gas at 27½ percent in 1926. Percentage depletion was extended by Congress to coal, sulfur, and metal mines in 1932 and made ap-

plicable to additional groups of nonmetallics in 1942 and 1943. Again in 1951 and 1954, percentage depletion was extended to additional minerals.

An appraisal of percentage depletion must include an examination into the whole fabric of percentage depletion allowances which cover not only oil and gas but practically all other minerals, metallics and nonmetallics alike, to which over the years Congress has made the percentage depletion allowances applicable.

An examination of the legislative history of percentage depletion establishes that the allowance for depletion was authorized by the Congress not only to permit recovery of the investment in wasting assets but also to provide incentives for exploration necessary for replenishment of wasting assets by the discovery and development of additional deposits.

Sound national policy must of necessity provide for the development and replenishment of vital mineral resources as a part of our economic arsenal to insure our security and to provide for growth and expansion.

Any review of the philosophy of percentage depletion must consider not only our overall tax structure but the national considerations which have led the Congress in the past to establish the existing rates for percentage depletion.

(6) *Increasing the number of enforcement personnel in the Internal Revenue Service to permit more auditing and intensified search for unreported income.*—During the fiscal year 1959, 92.9 million tax returns were filed with the Revenue Service. Taxes collected amounted to \$79.8 billion. Of the total returns, 60 million were filed under the individual income tax and represented almost 100 million taxpayers, since joint returns reflect the income of two persons. At the end of the fiscal year the Service had 50,200 employees.

It is obvious from these statistics that the tax collecting system of the United States is a voluntary system. We depend on the preparation and filing by taxpayers of their returns. We depend on the taxpayer for the original computation of his liability and for the payment, without billing, of the amount due. We believe that at all times emphasis must be placed on the voluntary nature of our system.

It is obvious also, in view of the volume of returns handled and the number of taxpayers, that the Revenue Service must depend in large part on machine operations and procedures which will allow a maximum of checking through office audits and mathematical calculations.

During recent years many steps have been taken to facilitate the enforcement of our tax laws by the Service. In 1954 the Service adopted a simplified card return, form 1040A. For 1958 the use of this form was extended to include salary and wage income up to \$10,000 and the number of returns filed on this simplified form was increased to over 17 million.

Centralized machine processing of returns at the three Service centers was expanded during 1959 to cover all districts except Honolulu. Machine processing is now used to assist in the assessment of taxes reported, verification of tax credits, computation of tax liability, issuance of bills for unpaid accounts, and the scheduling of tax refunds.

Machine processing of individual income tax returns enabled the Service to act promptly on the refund claims of taxpayers who over-

paid their tax for 1958. A total of nearly \$4 billion in excess payments was refunded to more than 35 million taxpayers with the bulk of the refunds scheduled by the end of May—just 6 weeks after the April 15 filing deadline. Over 52 million individual income tax returns were verified by machine operations.

The volume of returns examined increased during 1959 for the fourth consecutive year. The total of income tax examinations rose to 2,595,000.

Additional tax, interest and penalties resulting from audit totaled \$1,619 million for fiscal year 1959—a gain of nearly 12 percent over the previous year and marking the highest total reached since the reorganization of 1952.

Approximately 1 million investigations were completed in fiscal 1959, involving persons or firms on which preliminary information indicated a failure to file required returns.

The number of past due accounts on hand was reduced in 1959 to the lowest level in nearly 7 years. Dollar amounts outstanding also showed a substantial reduction with the year-end figure dropping below that of any year since 1954.

In spite of the gains that have been made, increased emphasis is being given to mechanization. The Service has initiated studies of large scale electronic data processing equipment to determine the feasibility of adopting and modifying Service operations to utilize such equipment. Research will continue to be pressed in this area.

The Service also has continued to emphasize training programs for its employees and its policies for improving the morale of its employees. This has resulted in a substantial drop in the turnover of employees and an increase in the average number of years of service of Internal Revenue personnel. As I am sure you will agree, the question is not the number of employees on the payroll, but the number of effective employees on the payroll, the experience and abilities possessed by such employees and the tools and equipment available for their use. Numbers do have importance, but are only one of the indexes which must be checked in determining the direction in which the Internal Revenue Service is proceeding.

The Service's program to encourage better qualified applicants to enter the Service and to stay with the Service has produced results but it has cost quite a large amount of money. Specific cost accounts for the program are not maintained, but you can infer something of the cost when you note that the Revenue Service had 51,400 employees at the end of fiscal year 1957 with a salary cost of approximately \$271 million, and 50,200 employees at the end of fiscal year 1959 with a salary cost of \$301 million. Even after allowance for the 1958 governmentwide pay increase, salary costs have gone up appreciably over the 3-year period.

As you know, the Congress for fiscal year 1960 failed to appropriate for the expenses of the Internal Revenue Service the amount of money requested for the Service in the budget submitted by the President to the Congress. In addition, the Internal Revenue Service requested a supplemental appropriation earlier this year—the supplemental appropriation containing only amounts made necessary by wage and salary increases authorized by Congress and postal increases. The amount of this supplemental was cut.

This information is not submitted to be critical. The Appropriations Committees carefully studied the submissions of the Internal Revenue Service. The committees and the Congress decided after such studies that efficient and satisfactory operation of the Internal Revenue Service could take place with the spending of less money than the Internal Revenue Service itself thought necessary and which the President requested. The Revenue Service has adapted its program to the money made available to it by the Congress.

We shall for fiscal 1961 submit budget requests which will allow for the employment of additional enforcement personnel keyed to the orderly development of the Revenue Service program and the effective use of the materials and equipment available to the Service. We hope to be effective in persuading the Congress to grant us the amount requested and will most certainly appreciate your assistance in supporting the program submitted by the President.

As indicated earlier, we have a common purpose of collecting all of the taxes due the United States and doing it as efficiently as possible. Certainly, the Revenue Service has a duty to the taxpayers of the country to make certain that careless or dishonest taxpayers do not escape the payment of all amounts due. Every taxpayer who pays less than the amount he is required to pay by statute places an added burden on all taxpayers.

The Treasury Department welcomes a study and review of the Internal Revenue Code. To this end we are working, as you know, in full cooperation with the Ways and Means Committee in the review which they will begin in November. It has seemed to us that this is the orderly way to proceed in this field and we believe you will agree with this viewpoint.

Thank you for the interest which you have shown in the difficult and complicated tax problems with which we are confronted and in the formulation of the administration's program for fiscal 1961. We appreciate the opportunity which you have given to us to write to you concerning these matters.

Very truly yours,

FRED C. SCRIBNER, JR.,
Under Secretary of the Treasury.

Following the transmittal of Under Secretary Scribner's letter to the Chairman of the Joint Economic Committee, the Commissioner of Internal Revenue, Dana Latham, issued a Technical Information Release, No. 198, on December 29, 1959, which deals specifically with abuses of business expenditures for travel and entertainment, particularly in the case of expenditures to cover "the ownership, operation, or utilization of automobiles, yachts, hunting lodges, beach homes."

In addition to these six proposals, the majority's report suggests the elimination of numerous preferential provisions in the estate and gift taxes. Its entire discussion is confined to seven lines, although the code covering these taxes is a very complex and difficult legal document. It is a disservice to the Congress to make gratuitous suggestions, unsubstantiated by documentation and specific legislative proposals which can serve no useful purpose.

In spite of the fact that no accurate data has been assembled upon which to appraise the economic effect of these proposed changes in the revenue code, none of which are endorsed by the Treasury Depart-

ment, the committee makes the unqualified statement that they "would bring in an additional \$4 to \$5 billion in tax income annually."

It appears more than likely that if legislation to implement these recommendations were enacted, it would stifle the growth of the economy, reduce the tax base, and ultimately result in a lowered level of tax receipts.

3. *Monetary policy*

In his state of the Union message delivered to the Congress on January 10, 1957, President Eisenhower proposed that the Congress establish a Monetary Commission. The last complete and impartial investigation of the Nation's money and banking system was made under the Aldrich-Vreeland Act adopted May 30, 1908, which laid the foundations for the establishment of the Federal Reserve System. President Eisenhower said:

Essential to the stable economic growth we seek is a system of well adapted and efficient financial institutions, I believe the time has come to conduct a broad national inquiry into the nature, performance, and adequacy of our financial system. This inquiry should be in terms of its direct service to the whole economy and in terms of its function as the mechanism through which monetary and credit policy takes effect. I believe the Congress should authorize the creation of a commission of able and qualified citizens to undertake this vital inquiry. Out of their findings and recommendations the administration would develop and present to the Congress any legislative proposals that might be indicated for the purpose of improving our financial machinery.⁴⁹

In his Economic Report to the Congress of January 23, 1957, he reiterated this proposal as follows:

The exceptionally heavy demands which economic expansion is placing on credit and capital markets have directed attention increasingly to questions concerning the adequacy of our financial facilities, and of the laws and regulations which govern their operation. Alert to these problems, the Senate Committee on Banking and Currency during the past year made an extensive and constructive investigation of Federal laws affecting financial institutions. The impact on the economy of monetary policies designed to restrain inflationary pressures has also become increasingly a matter of public concern. There is need at this time of a thorough study of recent changes in our financial structure and practices, covering the activities of public as well as private agencies, and of the legislative and administrative steps needed to improve our facilities for meeting credit and capital requirements and for exercising appropriate controls over credit. The state of the Union message recommended that the Congress authorize a National Monetary and Financial Commission to perform this important task. The Commission should be composed of distinguished citizens of outstanding

⁴⁹ Congressional Record, 85th Cong., 1st sess., vol. 103, pt. 1, Jan. 10, 1957, p. 410.

competence and experience in the range of questions to be studied.⁵⁰

Because monetary policy has been the subject of emotional, political discussions since our earliest history, President Eisenhower believed that a review of our entire monetary mechanism by an impartial and independent group of financial experts would provide a better understanding of the proper role of monetary policy in promoting the growth of the American economy. Unfortunately, this Commission was never established by the Congress. However, the Senate Finance Committee during the 85th Congress conducted extensive hearings on the financial condition of the United States.

The present review of recent monetary actions duplicates much of the work of the Senate Finance Committee and adds little to our understanding of our present problems.

Again, it is easy for those without direct responsibility to criticize the actions of the Federal Reserve Board, but the fact of the matter is that an unusually fine job was done during the past 6 years by those who maintained the delicate balance between ample credit to meet the Nation's proper needs and yet avoided stoking the fires of inflation.

The majority's report proposes that the money supply be increased and interest rates be lowered. Yet, it realizes the fallacy of its own position by advocating selective controls on consumer credit as well as proposing:

* * * further studies should be undertaken to determine what can be done to reduce the instability of plant and equipment investment. It may well be that it is impossible to stabilize these outlays, or that stabilization would lead to a lower average level. Nonetheless, the problem should be thoroughly explored. It should be kept in mind, however, that if the rest of the economy becomes more stable, plant and equipment expenditures will automatically become more stable as well.

Government stabilization of investment in effect determines which firms should be allowed to expand their operations or engage in new ventures. It is impossible to control this most dynamic factor in our economy without completely regimenting our society. This is but another instance among many where the majority's report is ready to abandon the freedoms which have made our country great and empower Federal bureaucrats with additional authority.

It is strange that the majority's report proposes that further powers be granted to those who are responsible for our monetary affairs while at the same time it is so ready to find fault with the manner in which the Federal Reserve Board has discharged its existing responsibilities.

4. Debt management

The majority's report is critical of policies adopted by the Treasury and the Federal Reserve System in managing our Federal debt. However, it would be more helpful if the Congress took the necessary action to reduce unnecessary spending programs so that the budget

⁵⁰ "Economic Report of the President," January 1957, p. 49.

could be balanced and a start could be made toward reducing this debt.

Although the budget for this fiscal year shows a slight surplus, it is largely due to the fact that President Eisenhower's vetoes were sustained in connection with so many unnecessary spending programs during the 1st session of the 86th Congress.

The principal problem in debt management arises from the fact that in addition to providing for a budget deficit of \$7.9 billion in the 1959 calendar year, the Treasury was required to finance \$52.3 billion of maturing marketable issues exclusive of \$24 billion of weekly bills. This was accomplished by refunding \$37.9 billion and paying off \$14.4 billion.⁵¹

If we are to prevent inflation, funds to finance the Federal Government, like any other revenues, must be derived from savings. The demand for funds and the incentives to save in the long run determine the prevailing rate of interest in the Nation's money markets.

President Eisenhower urged the Congress to remove the interest ceiling on long-term Federal obligations, but no action was taken. In fact, the majority's report proposes that this impossible situation should be continued indefinitely. It states:

Because the question of the 4 $\frac{1}{4}$ percent interest-rate ceiling is of such importance, most of the recommendations for improved debt management are discussed in connection with it, in order to avoid unnecessary repetition. * * *

It is our recommendation that the 4 $\frac{1}{4}$ percent ceiling on long-term Government bonds (those over 5 years) not be removed until major reforms in fiscal, monetary, and debt-management policies are instituted. * * *

The effect of this artificial and arbitrary ceiling is to force the Treasury to finance its requirements through the sale of short-term securities. The Federal Government is competing with those who would normally be seeking commercial loans, installment loans, and other credit necessary for the business community. Such a course leads to unnecessary and unwarranted hardship, and it also encourages monetization of the debt.

A sound policy of debt management would permit the Treasury to set interest rates in such a manner that its obligations would be sought by institutional investors who would retain the bonds to maturity. Such a course would enable the Treasury to convert more of the debt into long-term obligations rather than to continue with the existing program of continually refinancing through short-term issues which disturbs the orderly functioning of the Nation's banking system.

5. Federal Reserve policy

The Federal Reserve System is largely the work of former Senator Carter Glass, of Virginia. It was established on December 23, 1913, during the administration of President Woodrow Wilson, as an independent agency.

The functions of the Federal Reserve System are set forth in a publication of the Board of Governors which states that—

⁵¹ "Economic Report of the President," Jan. 20, 1960, p. 42.

* * * Its original purposes, as expressed by its founders, were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. From the outset there was recognition that these original purposes were in fact integral parts of a broader objective, namely, to help counteract inflationary and deflationary movements, and to share in creating conditions favorable to sustained high employment, stable values, growth of the country, and a rising level of consumption. Acceptance of this broader objective widened over the years and today it is generally understood to be the primary purpose of the System.

How is the Federal Reserve System related to production, employment, and the standard of living? The answer is that the Federal Reserve, through its influence on credit and money, affects indirectly every phase of American enterprise and every person in the United States.⁵²

Under its present Chairman, a sound course has been set which has enabled our dual system of State and National banks to work together in an orderly fashion to promote the growth and stability of our economy.

The majority's report is primarily concerned with the fact that the Federal Reserve authorities had sufficient courage to halt the boom in 1953, even though politically this course was not advantageous for the incumbent administration. However, the policies which were pursued at that time made possible the good times which we experienced for the next few years.

Once again there were excesses in 1957 which required firm and courageous action. To be sure, a boom was curbed by the deliberate actions of our monetary authorities. This set the foundation for the stable and sound recovery we are now enjoying.

Apparently those who accept the thesis expressed in the majority's report would set the country on a course of attempting a continuous boom which would surely end in the largest bust in history. This might be politically popular while the boom lasted, but in the broader perspective of history those who would accept this formula would be denounced as having jeopardized not only our economic solvency but also the security of the free world which depends on a strong and healthy economy in the United States.

6. Antitrust and price prenotification

Americans are ever mindful that our spectacular economic achievements are the direct result of competition. Former President Herbert Hoover, in his address at the Brussels Fair on July 4, 1958, expressed the views of most informed Americans. He said:

We are often depicted as living under the control of wicked men who exploit our economic life through gigantic trusts and huge corporations. They are supposed to grind the faces of the poor and to exploit other nations. All this ignores the fact that our laws for nearly 70 years have prohibited the existence of trusts and cartels. In few other

⁵² The Federal Reserve System, Board of Governors of the Federal Reserve System, Washington, D.C., 1954, pp. 1, 2.

nations have the fundamentals of fair and open competition been so zealously maintained.

This competition has spurred our industries to adopt every laborsaving device. And, to create them, there are more than 5,000 industrial research laboratories that pour out new ideas which become open to all the world.⁵³

Unfortunately, the majority's report attempts to link size with monopoly. It states:

* * * Granted that the best size of a firm for gaining the advantages of technology and of research may be quite large in some industries, it does not follow that industrial giantism is necessary. There is no evidence, to indicate that greater and greater efficiency goes in step with greater and greater size; rather, most of the huge corporations in industry enjoy no greater economies of mass production and provide no greater improvements through research than do firms one-quarter or one-eighth of their size. * * *

The Senate Antitrust and Monopoly Subcommittee in its investigation of the automobile industry had an opportunity to study the contributions by various-sized firms to advancing research and technology. The minority views of the junior Senator from Illinois, Everett McKinley Dirksen, stated that:

One of our most significant postwar developments has been the establishment of great research centers by America's leading corporations. They include the Bell Telephone Laboratories, Du Pont, General Electric, General Motors, RCA, United States Steel, Ford, and others. None of these facilities would be available to meet the intense competition with Soviet Russia if any producer were limited to a size merely sufficient to secure maximum economy in the manufacture of a limited product line.⁵⁴

President Eisenhower participated in the dedication of the General Motors Technical Center. The President said:

This particular center is a place for leadership in furthering new attacks on the technological frontier. Beyond that frontier lie better and fuller employment, opportunities for people to demonstrate yet again the value of a system based on the dignity of the human being, and on their free opportunities in life. Beyond it lie people, better capable of working with others and so that they may share what they learn with our friends in the world.

So in this technological center, we have this development of new machines responding in their efficiency to the constantly inquiring mind of the technician, that they in turn will produce yet broader freedoms and richer dignity for human beings, more rewarding lives, for all America and we hope through all the world.⁵⁵

⁵³ "Administered Prices, Automobiles," report, together with individual views of the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate, pursuant to S. Res. 231, 85th Cong., 2d sess., Nov. 1, 1958, p. 311.

⁵⁴ *Ibid.*, p. 283.

⁵⁵ *Ibid.*, pp. 283, 284.

The majority's report ignores the Nation's need to maintain firms of sufficient size to support these research institutions. The term giantism has become relative. Mr. George Romney, president of the American Motors Corp., one of the more progressive but smaller factors in the automobile industry, at the request of the chairman, prepared an estimate of the minimum economic size of an automobile-producing unit and the capital investment which would be necessary for its establishment. The majority's report of the Antitrust and Monopoly Subcommittee referred to his statement as follows:

* * * These estimates are based on current reproduction costs for building, machinery, equipment, and standard tools and dies, plus organizational expenses and estimated first-year losses. Mr. Romney chose to submit his estimates in terms of an enterprise producing 250,000 automobiles a year. His estimate of the total capital requirements for a new company with this production breaking into the market for the first time is \$576 million. * * *⁵⁶

With an estimated automobile demand of 5 million units, a firm capable of building only 5 percent of the industry's output would require an investment of more than a half billion dollars. Hence, it is not surprising that large size is a characteristic feature of many mass production establishments.

The majority's report also implies that concentration is increasing. Yet, over the years there has been no significant increase in concentration. In the case of the steel industry, testimony before the Senate Antitrust and Monopoly Subcommittee by Mr. Roger Blough, chairman of the board of the United States Steel Corp., showed that in 1902 his firm produced 66 percent of the total steel made in the United States, whereas in 1957 it was responsible for less than 30 percent of domestic production.⁵⁷ To be sure, the United States Steel Corp. has increased in size during this period, but its share of the market has declined to less than half of its former position during this period of 55 years.

The majority's report suggests numerous specific legislative proposals ranging from amendments to the Clayton Act applying it to bank mergers and to legislation for civil investigative demands. These are matters which cannot be disposed of in less than eight lines of a report.

Legislation to authorize the Department of Justice to proceed with civil investigative demands when it believes that there is a probable violation of the antitrust laws has been endorsed by the administration. The principal problem surrounding this measure has been the preservation of the confidential nature of the material submitted to the Department of Justice for law enforcement purposes. Such legislation must not be misused in fishing expeditions by congressional committees or others who may seek headlines. A bill, S. 716, was passed by the Senate on July 29, 1959. It provides that the Department of Justice may remove such records as it deems pertinent for inspection and examination. Such a course would deprive a business of its essential operating records. The same purpose could be accom-

⁵⁶ *Ibid.*, p. 305.

⁵⁷ "Administered Prices, Steel," report of the Committee on the Judiciary, U.S. Senate, Subcommittee on Antitrust and Monopoly, pursuant to S. Res. 57, 85th Cong., 2d sess., Mar. 13, 1958, p. 189.

plished by permitting the Antitrust Division to examine a firm's records and make such copies as it deems necessary to assist it in the enforcement of the antitrust laws.

The majority's report also includes support for measures which would involve the Federal Government in key price- and wage-setting processes. It states:

While we recognize the difficulties and dangers of, and share the presumption against, Government participation in the price-wage-setting process, there is a need, at least on a stand-by basis, for a factfinding procedure in key price, and associated wage, increases which seriously threaten economic stability, to be invoked at the discretion of the President, and to result in the issuance of a report and recommendations regarding the justification and desirability of such proposed increases.

The American economy is based on free enterprise in which competition in the market place determines prices and collective bargaining the wages paid to labor. In spite of the serious loss of production and incomes which have been experienced in major labor disputes, it would be a tragedy to compound our difficulties by authorizing intervention by the Federal Government into these areas. Measures are pending before the Congress, including S. 215 which has already been discussed, that would require prenotification before a price increase could be put into effect by firms in so-called concentrated industries. The structure of the American economy is exceedingly complex, and even a casual glance at available data shows that almost half of the products of American manufacturing would fall into this category.

A report entitled "Concentration in American Industry" by the Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee, issued in July 1957, shows that at least 600 separate product categories are affected.⁵⁸ Still another measure which is presently pending before the Rules Committee of the House of Representatives, H.R. 4870, introduced by Representative Reuss, would inject the Council of Economic Advisers and the White House itself into these decisions.

All collective bargaining would become a farce should such a measure be enacted into law, as the participants in any wage-price decision would wait for the White House or some other Government agency to act rather than to settle their problems themselves. This is the path that leads to socialism and a planned economy—not to voluntarism which underlies the American way of life.

While the majority's report refers to key industries, experience shows that they set both the wage and price patterns for others to follow. In effect, the majority's report provides a thinly disguised support for Government price and wage controls. This measure would particularly embarrass small firms who would be unable to increase their prices until their more successful competitors were willing to accept a review of their costs and other data, which would be disclosed to competitors here and abroad. Competition is not possible under such circumstances.

⁵⁸ "Concentration in American Industry," report of the Subcommittee on Antitrust and Monopoly to the Senate Judiciary Committee, 85th Cong., 1st sess., pursuant to S. Res. 57, committee print, July 1957, pp. 41-62.

7. *Tariffs*

The majority's report recommends that we reduce our tariffs gradually. The Congress enacted legislation on August 11, 1958, H.R. 12591, 85th Congress, 2d session, which extends the Trade Agreements Act to June 30, 1962. It authorizes the President to reduce tariffs up to 20 percent below the levels existing at that time, but no more than 10 percent in a single 12-month period. It allows the cuts to be made any time within 4 years beyond the end of the act's extension, or up to June 30, 1966.⁵⁹

In view of the fact that at the forthcoming GATT negotiations, tariff cuts may be negotiated under the terms of this act, there is little to be gained by recommending a new tariff policy at this time until the present tariff reduction powers have been exhausted. Furthermore, in connection with our tariff program, it will become more and more important for the administration and the Congress to protect America's gold reserves since under present conditions, imports are entering the country faster than our exports of goods and services. In December 1957 the U.S. gold reserves totaled \$22,857 million.⁶⁰ The most recent data available as of October 1959 shows that they had declined to \$19,647 million.⁶¹ Under these conditions, and with the powers already granted for tariff reduction, it is more important to stabilize our international trade than to cause additional dislocations by tariff changes. Furthermore, in the next few years, we will be confronted with increasing competition from the European Common Market, as well as the countries constituting the Outer Seven. Until these new international factors have been adequately appraised, it is a disservice to suggest that the Congress even consider any legislation relating to tariffs.

8. *The farm problem*

America's farm problem stems from the fact that in three wars we were called upon to furnish the food and fiber which normally would have been produced by our allies themselves. As the economies of other nations once again were able to adapt themselves to peaceful pursuits, the policies which we had adopted during wartime produced vast and unwieldy surpluses. The Congress reduced the land under cultivation for the basic crops through the conservation reserve in the soil bank program.

Additional efforts were made to secure a workable farm program during the past 2 years with no success, since the Congress was unwilling to accept the administration's recommendations. In many cases the farm organizations themselves were not in agreement as to the best overall agricultural policy.

The majority report proposes that :

Let us support farm income rather than farm prices through a system of production payments but with dollar limits on such payments. The difference between market price and a given percentage of parity—say, 85 percent—would be met by a direct subsidy. But let us limit the bushels or amount of such production which can qualify for

⁵⁹ Congressional Record, U.S. Senate, 85th Cong., 2d sess., vol. 104, pt. 13, Aug. 11, 1958, p. 16821.

⁶⁰ Federal Reserve Bulletin, December 1959, Board of Governors of the Federal Reserve System, Washington, D.C., p. 1556.

⁶¹ *Ibid.*

payments as well as the total amount of such payments to any one farm or farmer.

This is not a new suggestion. On the contrary, it was first proposed by the Secretary of Agriculture, Mr. Charles F. Brannan, in 1949 and endorsed by President Truman in his Midyear Economic Report transmitted to the Congress on July 11, 1947. He stated:

There is immediate need to overcome a number of shortcomings in existing farm legislation. It is necessary to assure fair and adequate supports for major farm products, notably livestock products, which have not been covered in past programs. It is necessary to authorize the use of direct production payments as an alternative to the pegging of market prices if an effective support program is to be carried forward without waste of commodities and without denying to consumers the benefits of agricultural abundance. It is desirable to recognize clearly that the objective farm support prices is to maintain an adequate level of farm income and promote shifts in lines of agricultural production which will encourage and increase in the total domestic consumption of farm products. I urge the Congress to enact at this session legislation to meet these needs.⁶²

Accordingly, there are no new and novel proposals in the majority's report. Once again it has undertaken to usurp a field which has been intensively reviewed by the congressional committees dealing with agricultural problems. They have a better conception of the needs of the farming community and are staffed with knowledgeable experts in these fields.

While the Nation expended vast sums to assist the producers of basic crops, it should be noted that countless farmers are enjoying satisfactory incomes producing vegetables, fruit, nuts, livestock, and other commodities which are not subject to Federal controls over production, or prices. On the contrary, with the exception of the tobacco program, all of the difficulties arise from our continuing to support the production of unneeded surpluses in a few basic commodities. This approach was thoroughly justified during wartime.

As any nation becomes industrialized and enjoys a higher standard of living, less of its productive efforts will be devoted to agricultural pursuits. Census data frequently fails to reflect these shifts, as many industrial workers continue to live on their farms and are classified as farmers. Yet, their principal income stems from other activities either in industry or in the service trades.

Dr. Simon Kuznets of Johns Hopkins University describes this normal shift from basic agriculture as follows:

* * * First, in the countries where per capita income grew significantly, the proportion of the labor force engaged in agriculture declined and that engaged in nonagricultural industries increased. The shifts have been quite marked. Thus in the United States the share of the labor force in agriculture was over 70 percent in 1820 and less than 20 percent in 1940. In Japan this share was 72 percent in 1870, and less than 30 percent by the mid-1930's. Second, in com-

⁶² "Midyear Economic Report of the President," July 1949, pp. 9-10.

paring the industrial structure of countries at a recent point of time, we find a fairly close negative association between the level of per capita income and the share of the labor force in agriculture: the higher the former, the lower the latter, and vice versa. Thus the share of the labor force in agriculture in India, China, Indonesia, and many of the poorer countries in Latin America, is between 60 and 70 percent; that in countries with high income per capita, even those that are great exporters of agricultural products (Canada, Australia, New Zealand), is usually well below 30 percent.⁶³

Sooner or later the American people must adjust to the basic economic facts which prevail in all societies as they become more industrialized and their living standards rise. There is no permanent solution to the farm problem embodied in the majority's report.

9. *International affairs*

In the discussion of tariffs, it was shown that further reductions as recommended in the majority's report would cause grave dislocations in our economy. These views are supported in the majority's report itself in the statement that:

In the last 2 years, the United States has become acutely aware of a host of new problems about our economic position in relation to the rest of the world. The very large balance-of-payments deficits of the last 2 years and the gold drain, which became acute in 1958, have led this committee to reexamine the American position.

Although aware of the fact that our international position has deteriorated, the majority's report makes no reference to the fact that labor costs which constitute the principal element in all costs have continued to rise, thus limiting the market for American products. Furthermore, inasmuch as the United States has contributed the major share of the defense expenditures for the free world, these costs too have had to be factored into the prices of all goods and services produced in the United States. American workers are more concerned about their take-home pay after taxes than in their hourly wage rate or monthly salary. Every new spending program must ultimately result in wage and salary increases which, in turn, require price increases. The greatest contribution which the Congress can make toward stabilizing our international position would be to reduce Government spending programs so that tax reductions might take place. This would increase workers take-home pay without adding to employment costs, and hence, prices.

Most of the recommendations contained in the majority's report would have the opposite effect. The majority's report appears concerned with the increase in the productivity which has occurred in other countries. It refers to the growth not only in western European countries, but more specifically within the Soviet Union. It says:

The recent growth record of the American economy contrasts with that of most of the advanced economies of the

⁶³ "National Policy For Economic Welfare At Home and Abroad," Doubleday & Co., Inc., Garden City, N.Y., 1955, p. 31.

world * * * the rate of increase of output was much larger elsewhere. In the OEEC countries of Europe as a whole, gross national product rose at a rate of 4.9 percent for the period 1950-57, the most recent dates for which comparable figures are available. Industrial production, which rose at a rate of 4.4 percent in this country from 1950 to 1957, rose at 6.2 percent in OEEC countries. Economic growth in the Soviet Union had been at an even higher rate with total output growing at approximately 7 percent.

It is vital that we do not fall into the practice long followed by the Russians of measuring our progress in terms of percentage changes without regard to the magnitude of the base from which changes are measured. The National Industrial Conference Board, a private and well-respected research organization on September 24, 1959, conducted a panel discussion on the prerequisites for economic growth. Dr. Solomon Fabricant, director of research of the National Bureau of Economic Research, one of the leading students of the problem of measuring comparative growth, reviewed America's performance as contrasted with that in other countries. He said:

* * * Nevertheless, whatever projections you or other people make—and this is extremely important—about our rate of growth or the rate of growth of Russia or that of Western Europe, or China—they are, after all, projections. They are not firm forecasts of what is inevitably to happen. They are, at best, forecasts of what might happen on the basis of certain assumptions; and the assumptions may not be valid.⁶⁴

He also said:

Today in Western Europe, the average level of national income per capita or its nearest measurable equivalent (which is usually gross national product) is about half that of the United States. The Swedish report also makes extrapolations or projections of the national income per capita of these Western European countries. Even on optimistic assumptions, the level they might expect to reach in 1975 is 20 percent below the present average level in the United States. Now these Western European countries are among the most prosperous countries of the world. The comparison then only serves to highlight the degree to which the bulk of mankind still needs goods and services.⁶⁵

A strong America with a minimum of Government interference restraining the initiative of its free citizens provides the best hope for mankind to counter the challenge of the monolithic state. They devote the energies of their people to the wishes of those temporarily entrusted with power rather than to the desires of their individual citizens. By setting an example of performance, such as we have achieved during the past 6 years, we can make our maximum contribution toward maintaining freedom in other lands. Insofar as we avoid cost price pushes due either to excessive labor demands or un-

⁶⁴ "Prerequisites for Economic Growth," National Industrial Conference Board, *Studies in Business Economics*, No. 66, New York, Sept. 24, 1959, p. 20.

⁶⁵ *Ibid.*, pp. 10-11.

necessary Government expenditures, we shall restore our dwindling gold reserves and maintain the respect not only of our allies but also the uncommitted millions who are appraising the merits of our way of life as contrasted with the promises held forth by the Communists.

V. CONCLUSIONS

These supplemental views deal only with a few of the major misconceptions contained in the majority's report. These supplemental views are filed with keen disappointment because a unique opportunity had been presented by the Congress to establish some economic facts and data in an area where fundamental knowledge is meager. Instead, a political document has been prepared without regard to the best interests of the Nation.

Mr. John S. Sinclair, the President of the National Industrial Conference Board, in opening the roundtable discussions on the prerequisites of economic growth, stated:

* * * Business, Government, and popular interest in the subject of economic growth has welled up markedly in recent years. It is surprising how readily it has been assumed that we know the past's secrets of economic growth and so can clearly state the rules for present growth here or in any other country or can meaningfully compare the growth of one nation or one system of government with that of another.

In striking contrast to this intensive interest is the relative paucity of authoritative materials designed to answer all or any one of these questions. Certainly, until the prosperity of the postwar period, much of the research effort here and abroad was upon the problem of the business cycle rather than long-term economic growth.⁶⁶

It is regrettable that the special study staff in the preparation of the majority's report neglected this challenge to add to our knowledge on this admittedly vital subject.

⁶⁶ "Prerequisites for Economic Growth," National Industrial Conference Board, *Studies in Business Economics*, No. 66, New York, Sept. 24, 1959, p. 9.

ADDITIONAL VIEWS OF SENATOR JACOB K. JAVITS

While I am joining in the minority views, I also believe it is of special importance to stress the positive aspects of U.S. policy on employment, growth, and price levels, and I am therefore filing these additional comments to set out my views on certain affirmative matters.

The leading requirements for our Nation in economic terms are, I believe, major increases in productivity, new methods in labor-management relations to assure continuing production, constructive enforcement of antitrust laws, major increases in international trade and investment, a rational trade, tariff and travel policy, partnerships with other industrial countries to give foreign aid and technical assistance adequate to retain the newly developing nations within the free world, training of a corps of young Americans to work abroad for government and business, and an even-handed fight against inflation.

Present in the majority report is the repeated inference, often explicitly stated, that the basis for the Nation's economic problems of productivity, inflation, high interest rates, etc., dates from some clearly identifiable day in early 1953. Such an inference must have a political coloration, for the facts show that basic influences on our economy have a continuous history, at least since World War II. This political coloration cannot be just dismissed because, by beclouding important issues, it does a disservice to our people and to those among our people who are responsible for our policies.

THE DESTINY OF THE COUNTRY IS AT STAKE

Differences as to ways and means and as to the dollar amounts of specific welfare measures and Federal Government expenditures for construction are important and absorbing questions for political debate, but in principle there is far greater agreement on the desirability of and support for most of these programs than we are often led to believe. But a preoccupation with means ought not to divert our attention from the one really overriding question which involves the very destiny of our country. This question, whether we like it or not, is whether our country, thrust into the position of world leadership, will lead the world in peace, productivity and higher levels of prosperity and living, or yield that role to a foreign and abhorred political and economic ideology.

These are, in short, not normal times for our country or for the world and we cannot deal with economic problems as if they were. Yet, we are deeply committed to free institutions; there are some actions we will just not resort to in the way of regimentation of the economy or the disciplining of the individual, whatever may appear to be their attractiveness in terms of dealing with economic problems.

Although we are not engaged in a "hot war," the life and death struggle between the economic and social systems of freedom versus communism—still the "cold war" now phasing into predominantly

an economic struggle—demands unusual expenditures, personal sacrifice and a dynamic policy. The peaceful competition between the United States and the free world versus the U.S.S.R. and the Communist world is now shifting more and more into the economic sphere—an indication of growing confidence by the U.S.S.R. in its power in the economic area. In this global conflict, U.S. foreign economic policy could well have a decisive influence on the success of the revolution of rising expectations for tolerable living standards in Asia, Africa, and South and Central America; and therefore materially influence the more than 1 billion people in the less developed areas of the free world—among them the peoples of 20 nations newly created since World War II, whose ultimate decision will be so critical in determining whether freedom or communism is the rule of the world.

THE TEST

For these all-important reasons, I find that I cannot agree with the current popular political test which seeks to distinguish between the “spenders” and the “savers”—the effort to polarize and thus make irreconcilable the views of those who believe in the necessity of economic growth more and those who fear inflation more. The majority, I am pleased to note, unequivocally rejects either leaping or creeping inflation as an acceptable economic condition.

We must reaffirm our own faith in our ability to meet decisively the economic challenges which now confront us while at the same time we make measurable progress forward in our national development—we must do this confidently without making “budget balancing” our sole aim, but at the same time with the objective of balancing the budget—and indeed securing a surplus for the reduction of the national debt wherever possible, by a careful, hardheaded regard for budget and fiscal necessities. The financial viability of this country is a major element in national security and therefore we cannot lay aside budgetary considerations. But at the same time, it would be equal folly to permit them to become the primary determinants of our policy.

PRODUCTIVITY AND ECONOMIC GROWTH AS REQUIRED BY THE NATION AND THE FREE WORLD WILL DETERMINE OUR NATIONAL DESTINY

Prerequisite to fulfilling the destiny of the Nation in this critical time in world history is the necessity for “gearing up” U.S. production and productivity in the proper lines so that we can have not only the strength required for free world leadership but can also, both by our aid and example, help other parts of the free world in their striving for higher standards of living for their people, who are so often the primary targets of communism. The optimum per annum increase of 5 percent is generally cited, compared with the present 3½ percent and the lower average of the last 5 years.

Allen Dulles, Director of the Central Intelligence Agency, testified before our committee that “Soviet gross national product has been growing twice as rapidly as that of the United States over the past 8 years.” We must remember, moreover, in making comparisons between the economic strength of the Soviet bloc and that of the Western World, that the Soviet, including its satellites, is indeed constituted and prepared to act as a bloc. On the other hand, the strength of the

Western World, to the extent that it depends upon our friends and allies, must be constantly nurtured and maintained by diplomatic and economic persuasion demonstrating to the other free and uncommitted peoples that their long-range hopes and interests are best served as parts of the free world.

Today, the productive power of the West alone, composed of the United States, Canada, and the countries of Western Europe, enjoys a more than 3-to-1 lead over the Soviet industrial bloc, composed of the U.S.S.R. and its European satellites; the West's gross national product is rapidly approaching \$1 trillion, which can be translated into a per capita share of the gross national product amounting to \$1,633. That is in contrast to the Soviet industrial bloc's national product of \$245 billion and an \$815 per capita share.

It seems clear accordingly that an increase in productivity is essential not only to enable us to meet the needs of our growing population, but to improve as well our oversea position in terms of our balance of payments and to enable us to carry the leadership of the free world for peace. Allen Dulles also said in this regard, "I would emphasize that we must increase our recent rate of growth to hold the Soviets to limited gains."

A conscious effort to increase our productivity may well be made with help from our wartime experience, during which 5,000 labor-management productivity councils were registered with the Federal Government. The Department of Labor in cooperation with the Department of Commerce and other appropriate agencies should begin to lay plans for the development of local and regional labor-management productivity councils. Such councils should have representatives of the trade unions, management, and possibly local government. They could at this time plan for improving labor management relations, the transition to automation, improving plant efficiency and safety, improving job training and apprenticeship programs, reducing avoidable absenteeism and establishing better mutual understanding between industry and the community. I am planning legislation which would amend the Employment Act of 1946, which is also the basic authority for this committee, to promote the establishment of such councils.

The questions raised by the organization of labor-management productivity councils lead directly to the question of automation. It is clear that the danger shown by our imbalance of international payments (1958 and 1959 at \$7 billion) is only a warning signal. It shows that we are now an inherent part of the competition in the whole free world. As the economies of Western Europe and Japan and other industrial countries revive—thus realizing successfully all of the efforts which have been made to bring about exactly this result, beginning with the Marshall plan and in the mutual security program—the competition for world markets will get keener. Automation, advanced technology, ingenuity, and improved know-how will be needed in even greater quantity if we are to stay ahead in the race for markets.

But automation, desirable as it is in accordance with what has represented U.S. economic success in the past and what appears to be required for continued success in the future, must have its humanitarian consideration. And here we find the need for retraining and

reequipping the individual workers who may be displaced by automation in order to take care of his problems during a transition period and to see that he is established in a proper economic place. This process has been going on anyhow and is evidenced markedly by the material rise in those who work in services and professions in the United States since the end of World War II as compared with those who are engaged directly in the production process. We all know that this trend is bound to continue.

We should therefore get to work on minimizing the amount of human dislocation which automation makes. It will take money and effort to retrain workers in order to give them new and very often better opportunities when they are displaced by virtue of automation. At the same time new needs are created by the very productivity and greater wealth production which increased productivity brings, especially as the statesmanlike phases of the organized labor movement now assure more and more a fairer division of the avails of production between the various elements in the economy.

WE CANNOT AFFORD TO LOSE PERMANENTLY ESSENTIAL PRODUCTION
THROUGH LONG "NATIONAL EMERGENCY" STRIKES

The recent steel strike has shown that our existing means of dealing with national emergency labor disputes are not adequate to meet the necessities of modern life. Therefore, legislation recently proposed by myself and Senator Aiken would authorize the President, in the event of a national emergency labor dispute, to appoint a public fact-finding board which would make recommendations for settlement. Following such action, and where the national health and safety is involved, the President may direct the Attorney General to go into court and request the appointment of a special receiver who would take possession of the affected facilities in the name of the United States and operate them to the extent required to protect the Nation's health and safety. The bill would not negate the use of existing procedures but would make available alternative methods of dealing with emergency situations triggered by national emergency labor disputes while at the same time encouraging the use of collective bargaining in order to achieve final settlement.

On the other hand, I am opposed to suggestions which would apply the antitrust laws to trade unions, as being inappropriate to the declared objectives of those laws. There are more appropriate and effective ways to give the public interest full effect in labor-management relations, as, for example, the proposals, discussed above.

ANTITRUST ENFORCEMENT ALSO IS AN ESSENTIAL TO PRODUCTIVITY

This is the leading, if not the only country, in the world which has had upon its statute books for nearly three-quarters of a century legislation to restrain monopoly and engrossing. We find in the economic platforms of both parties today repeated statements of the desirability of more vigorous and more effective enforcement of these laws and at least lipservice to more generous budgetary support of the agencies charged with such enforcement. These protestations need to be implemented in the interest of curtailing the economic power of monopoly where it is aimed at noncompetitive rigidity. It

seems to me also that consideration might be given to strengthening the position smaller businesses have in competing with their giant "competitors." A permissive degree of cooperation among small businesses properly supervised by Department of Justice or by court-appointed special masters, by strengthening the hand of such small businesses, might aid the Government in its antitrust enforcement policy. In this context, I believe that the statements of the majority and the minority in the area of antitrust policy can receive general support.

A WORLD TRADE DRIVE IS NEEDED

A major effort by the United States must be made in the economic sphere to sharply step up its foreign trade, particularly exports. By 1964 we must strive to about double U.S. export-import trade, increasing it from \$29 billion (excluding military aid exports) to \$50 billion annually.

Expanded foreign trade is indispensable to a budget surplus in 1960 and to the economic health and future of the United States. The President's expectation of a budget surplus is heavily based on such trade expansion, according to the Economic Report. To bring it about will call for two new programs in the Federal Government—export credit guarantees and adjustment assistance for businesses and workers adversely affected by imports.

We must expect increased imports if we seek to increase exports; therefore, by supplying assistance to those parts of our society adversely affected by certain imports, the national interest may best be served. It should be especially noted that increased customs receipts took place during a period when we were lowering our tariffs in accordance with our reciprocal trade policy.

The United States is now running a substantial balance-of-payments deficit which can be redressed primarily by increased exports. Yet a liberal U.S. import policy is essential to the economy of the free world, especially of the newly developing areas to which an active foreign trade in primary commodities is indispensable, and such a U.S. import policy is not practical without increased exports by us. Exports are a test of our productivity which is a critical element in the struggle between free institutions and communism; and fairness to consumers in the United States, as well as the increased competitive sharpness of our production system, require a sufficient import policy.

We are undergoing an adverse balance of payments internationally which in the 2 years 1958 and 1959 has aggregated \$7 billion. While the United States is economically and financially strong, our balance-of-payments position must be redressed eventually if we are to maintain a high level of employment and continue economic progress and development, maintain our position of economic leadership of the free world, carry out the mutual security program of economic aid to newly developing areas, and maintain a vital private economic system.

Therefore, the United States has a tremendous interest in displaying a vigorous diplomatic initiative to bring about a means for living together between the "Inner Six" European Economic Community and the "Outer Seven" European Free Trade Association in Western Europe. We have that opportunity at the negotiations under the General Agreements on Tariffs and Trade which is scheduled to open in September 1960.

The important contribution to economic development made by foreign trade and private investment programs is often unappreciated. Even a small reversal of the progressively liberal trend of our trade policies or a recession of demand in the United States can wipe out or curtail large segments of our trade and have strongly adverse effects on our friends. Governmental economic aid cannot take up this slack. In 1958 our export and trade with Mexico exceeded \$1.3 billion while our net economic grants and credits were \$77 million; with Cuba our trade was nearly \$1.1 billion, economic aid was \$11 million; with Argentina an 8 to 1 ratio held true; with Colombia the ratio was better than 10 to 1; and while our trade with Venezuela exceeded \$1.7 billion our net economic grants and credits were only \$3 million, and with Indonesia the ratio was nearly 10 to 1. With the African nations of Ethiopia, Ghana, and Liberia our trade was \$200 million while the net effect of our economic assistance was \$15 million.

The developing countries of the world are heavily dependent on exports to the United States as part of their total export program and of their economic development. In 1958, the ratio of exports to the United States versus total exports stood at 1 to 3 for Japan. The Philippines exported well over half their goods to the United States and Brazil more than 40 percent.

The industrial nations of the free world must share in the work of economic development of the less-developed areas. That our NATO allies can do so is evidenced by their gross national product which is expanding at a rate about twice that of the United States and is already over the \$300 billion mark, and by their efforts in the field of economic aid to date.

Britain in 1958 spent some \$350 million in Government aid to the less-developed nations, while France's program runs to \$250 million annually. The European Common Market countries have established a \$580 million common market oversea development fund, largely for Africa. These figures show that the potential is there, the will exists, and a start has been made. Now a full-scale program must be mapped out whereby public and private investment by ourselves and our friends will reach a goal of \$10 billion a year, about 40 percent more than at present, in the less-developed nations of the free world.

The NATO Parliamentarians Conference which met in Washington last November adopted the several resolutions of its Economic Committee (of which I have the honor to be chairman), on this subject. They proposed the economic integration of free world efforts to liberalize trade and to raise the standards of living of the uncommitted and less-developed nations of the free world through coordinated public and private investment and through orderly primary commodity markets. The first step toward such cooperation was taken in January 1960, by nations representing the European Common Market, the European Free Trade Association, the Organization for European Economic Cooperation, and the United States and Canada, and plans were adopted for further negotiations for the establishment of a 20-nation organization of Atlantic economic cooperation including the United States and Canada, which will pursue coordinated economic policies.

A report on the place of the U.S. private economy in the foreign policy efforts of our Government which is of monumental importance

to the peace leadership of the United States was recently issued. It is entitled, "Expanding Private Investment for Free World Economic Growth" and was prepared by the Departments of State and Commerce in cooperation with other Federal agencies and issued by Under Secretary of State Dillon, based on the staff work of Ralph I. Straus of New York. This report recommends a major increase in U.S. foreign private investment in aid of our peace leadership. It deals with tax incentives for oversea private investment; participation of small business; stimulation of treaties of commerce, friendship, and navigation; material increase and improvement of the existing ICA private investment guarantee program; improved administrative procedures of U.S. Government agencies in the foreign trade and investment field and other major matters of this character.

Of great importance to the outcome of the economic struggle will be the degree to which U.S. civilians enlist directly in the effort to promote peace and prosperity in the free world by working overseas for businesses and voluntary organizations, as well as for the Government. A national drive should be launched to usher in a new era in 1960—an abroad, as businessmen, students, workers, teachers, missionaries, technicians, and doctors, together with their families ready and willing era of thousands of well trained, dedicated, versatile young Americans to teach or to train as well as to listen and learn.

Person to person diplomacy by 500,000 American civilians working overseas compared to the 100,000 working overseas now is a realistic short-range goal, if U.S. public and private overseas assistance continues to expand and grow as it should in less developed areas and as U.S. colleges and universities equip themselves to train thousands for overseas assignments. To encourage qualified Americans to spend some of their productive years working abroad, we should provide tax incentives where necessary, especially in some areas of the less developed countries recognized as hardship posts. The great majority of these Americans working abroad are destined to be stationed in the front lines of the new economic struggle, for the less developed areas are the favorite target for the Communist bloc's economic penetration.

INFLATIONARY FACTORS

The possibility of a round of price rises growing out of the recent steel strike settlement leads directly to another major problem facing our country in its capability for carrying the great responsibility of free world leadership. This Government, looked to as a leader and challenged on all sides in the battle for productivity, has a major responsibility in protecting its own public against inflation. This does not mean that economic growth and the realization of our capacities for production should be submerged in a stubborn quest for price stability. While the devices employed to restrain inflation may vary from time to time, the least the Government can do is to lend its fact-finding facilities and its good offices, to bring about a feeling of restraint in price rises by presentation of the facts themselves. This might be done in much the same manner that we have come to accept as appropriate intervention in the solution of labor-management disputes. Just as the Federal Government makes available mediation and conciliation services in labor-management disputes, it should have

facilities to provide such services in pricing policies in the interest of consumers and all those affected by economic stability. Indeed, in an acute case a factfinding board appointed by the President should not be beyond the realm of consideration.

The majority report in dealing with the desirability of removing the ceiling on interest rates paid on Federal Government securities conditions removal upon first putting into effect by the Treasury and Federal Reserve System of a number of suggested institutional and administrative changes. Meritorious as some of these institutional and administrative changes may be, they are not likely to change materially the debt management problems facing the country right now. I, therefore, prefer to take a position which demonstrates enough faith in ourselves to solve the problems of debt management under flexible rules rather than leaving undone something which is in the national interest.

In the management of the public debt in such a way as to best protect the credit of the United States, I would suggest specifically two immediate programs:

(1) An opportunity for the Federal Government to operate with greater flexibility in respect to the public debt than it can now manage, due to the statutory ceiling on interest rates—this objective to be gained through adoption of the President's recommendation on long term issues to the extent of permitting the President to exceed the present interest rate ceiling during a term of years.

(2) In order to emphasize the special role of savings bonds, I would propose lifting the ceiling on interest rates on savings bonds entirely—provided that the authority for this latter action could be terminated by the Congress through concurrent resolution not requiring the President's approval at any time. This should be followed by a drive to sell to the public what we now call savings bonds but which should be renamed peace bonds—this drive to feature a special \$25 billion issue of peace bonds which would seek to attract millions of new investors in a significant shift of the national debt into these antiinflationary securities.

CONCLUSION

It will be noted that in the foregoing analysis I have endeavored to deal with the direct problems of employment, growth and price levels, based not alone upon the action of the Government, but upon action of the private economy as well as it is directly affected by and motivated by the Government. Our Committee can serve the Nation's purposes best by showing the lines along which we must travel to put us on the high road of realizing our national destiny and discharging our responsibility to men and women everywhere. Americans have had a fair curiosity about, but never have they been overly preoccupied with, postmortems.

A P P E N D I X E S

86TH CONGRESS
1ST SESSION

S. CON. RES. 13

IN THE SENATE OF THE UNITED STATES

MARCH 24, 1959

Ordered printed as passed

CONCURRENT RESOLUTION

Resolved by the Senate (the House of Representatives concurring), That the Joint Economic Committee, or any duly authorized subcommittee thereof, as authorized by the Employment Act of 1946, as amended, is authorized and directed to conduct a full and complete study of and investigation into the problems of providing maximum employment and an adequate rate of economic growth, as well as maintaining price stability and preventing inflation, including, among others, the following subjects:

(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; and

(7) Constructive suggestions for reconciling and simultaneously obtaining the three objectives of maximum employment, an adequate rate of growth, and substantial stability of the price level.

SEC. 2. For the purposes of this resolution, the joint committee, or any duly authorized subcommittee thereof, is authorized through January 31, 1960 (1) to appoint and fix the compensation of such experts, consultants, or organizations thereof, and clerical and stenographic assistants as it deems necessary and advisable; and (2) to hold such hearing, to sit and act at such times and places, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable.

Subpenas shall be issued under the signature of the chairman or vice chairman of the joint committee and shall be served by any person designated by them.

SEC. 3. The joint committee shall from time to time report its findings and recommendations to the Senate and the House of Representatives and shall make its final report at the earliest practicable date but not later than January 31, 1960.

SEC. 4. The expenses of the joint committee under this resolution, which shall not exceed \$200,000, through January 31, 1960, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the joint committee.

HEARINGS, STUDY PAPERS, AND REPORTS PREPARED UNDER STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

Single copies of the publications listed may be obtained upon written request from the Joint Economic Committee (Senate Post Office, Washington 25, D.C.), except for items which are marked with an asterisk (*); these items and additional copies of other materials may be purchased from the Superintendent of Documents, Washington 25, D.C. The prices shown are for single copies. There is a discount for quantity orders.

REPORTS

**Staff Report on Employment, Growth, and Price Levels*: December 1959. \$1.50.

Employment, Growth, and Price Levels, Report of the Joint Economic Committee, pursuant to Senate Concurrent Resolution 13, 86th Congress, 1st session: January 1960. 45 cents.

HEARINGS

¹Part 1. *The American Economy, Problems and Prospects*: March 1959.

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¹ Part 1 is out of print.

- *Part 9B. Same title as 9A. Materials submitted by 12 organizations at the invitation of the Joint Economic Committee: December 1959. 45 cents.
- Part 10. *Additional Materials Submitted for the Record*: In press, January 1960.

STUDY PAPERS

- *No. 1. *Recent Inflation in the United States*, by Charles L. Schultze: September 1959. 40 cents.
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- No. 20. *The Potential Economic Growth of the United States*, by James W. Knowles: In press, January 1960.

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- No. 21. *Postwar Inflation*, by Harold M. Levinson: In press, January 1960.
- No. 22. *An Evaluation of Anti-Trust Policy: Its Relation to Economic Growth, Full Employment, and Prices*, by Theodore J. Kreps: In press, January 1960.
- No. 23. *Unemployment in Surplus Labor Market Areas*, by the Bureau of Labor Statistics: In press, January 1960.

**RECOMMENDATIONS OF THE AMERICAN BANKER'S ASSOCIATION
ADVISORY COMMITTEE TO THE TREASURY, 1952-59.
(EXCERPT FROM HEARINGS, PP. 1221-1228.)**

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
1952 Feb. 8.....	Refunding of 2½-percent bonds maturing Mar. 15, 1952.	Offer exchange for notes or bonds with maturity of 3 to 6 years and coupon of 2¼ to 2¾ percent, depending on maturity.	Offered exchange for 2¾-percent bonds due Mar. 15, 1959.
	Refunding of 1¾-percent certificates maturing Apr. 1, 1952.	Offer optional exchange for 1¾ percent, 1½- or 12-month certificates or the same notes or bonds suggested above.	Offered single exchange for 1¾-percent 11-month certificates.
	Call of 2- and 2¼-percent bonds eligible for redemption.	Do not make call at this time.	Call was not made.
Apr. 4.....	Cash offering of long-term bonds. Cash required to cover deficit of upward of \$10 billion.	Offer \$1 billion on Mar. 15 or Apr. 1 of 35-year 3-percent bonds. Offer long-term marketable 3-percent bond with maturity of 30 years. Market should be approached experimentally with initial offering of \$1 billion to \$1½ billion.	No long-term bonds issued. Marketable bond not offered. Reopened 2¾-percent nonmarketable bonds due 1980 in May for cash and exchange for outstanding marketable 2½-percent bonds.
	Refunding of short-term bills and certificates.	For short-term borrowing, increase offerings of bills. Revise savings bond program: Increase yield on series E to 3 percent; offer new 3 percent current-income bond as companion to series E bonds; adopt more favorable yield curve modified to yield 2¾ percent for 12 years on series F and G bonds.	Weekly issues of bills were increased by an aggregate of \$1.6 billion between Apr. 7 and July 3. Savings bond program was revised on May 1 along the basic lines recommended by committee.
	Call of 2- and 2¼-percent bonds eligible for redemption.	Treasury should feel its way as year goes on, and roll over maturities into similar issues or wherever possible, into medium-term issues.	All maturities were rolled over.
June 27.....	Refunding of certificates due Aug. 15 and Sept. 1, 1952. Refunding of 1¾-percent certificates due Oct. 1, 1952. New cash of \$5 billion in second half of year.	Under present conditions issues should not be called. Suggested combined refunding into a similar certificate or note. Roll over into similar obligation.	Call was not made. Offered exchange for 2-percent certificates due Aug. 15, 1953. Offered 2½-percent 14-month note due Dec. 1, 1953.
	Call by Aug. 15 of 2- and 2¼-percent bonds eligible for redemption on Dec. 15, 1952.	Issue long-term marketable bonds at appropriate rate in autumn; revise rates on tax notes; issue tax bills maturing around the March tax date; sell larger amounts of 90-day bills. Do not call under present circumstances.	No long-term bonds issued. Sold in October \$2.5 billion tax-anticipation bills due Mar. 18, 1953; also in November \$2 billion tax anticipation bills due June 19, 1953. Call was not made.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
1953 Dec. 5.....	Refunding of 17½-percent certificates due Feb. 15, 1953. Call of 2- and 2½-percent bonds eligible for redemption. Handling maturity of series F and G bonds. Cash offering of long-term bonds in first half of 1953.	Optional exchange for a certificate or note due in about 1 year at an appropriate rate, or a bond maturing in 1950, 1957, or 1959. Call partially tax exempt 2-percent bonds of June 1953-55. Do not call fully taxable 2½-percent bonds. Secure broad permissive legislation to extend series F and G bonds at maturity. Extension of maturities can be determined from time to time only in light of investment market; sound out market for long-term bond as conditions appear propitious.	Offered optional exchange for 2¼-percent 1-year certificates or 2½-percent 5-year 10-month bonds due Dec. 15, 1953 Call of 2-percent bonds was made. Call of 2½-percent bonds was not made. Series F and G bonds were not extended. (See meeting of War. 20, 1953.)
1953 Mar. 20.....	Refunding of 17½-percent certificates due June 1, 1953, and 2-percent bonds recalled for redemption on June 15, 1953. Cash offering to cover attrition on refunding and apparent cash deficit.	Offer optional exchange for either 1-year 2¼-percent certificates or a short-term bond, due around 1961. Time was not opportune for sale of long-term bond and no cash offering should be made in May or June. Suggested consideration of the short-term bond due around 1961.	Offered single issue of 2½-percent certificates due June 1, 1954. Offered for cash subscription \$1 billion of 3¼-percent bonds, dated May 1, 1953, and maturing June 15, 1953.
June 19.....	Refunding maturing series F and G bonds. New cash of \$5 billion in July.	Offer holders in exchange a 3-percent marketable bond maturing in 15 years to test the market for a moderately long-term bond. Offer tax anticipation certificates maturing Mar. 15, 1954, at rate determined by market conditions which would prevail in July.	Exchange offer was made for 3¼-percent bonds maturing June 15, 1953. Sold for cash \$5.9 billion 2½-percent tax anticipation certificates due Mar. 22, 1954.
Aug 26.....	Refunding of 2-percent certificates on Aug. 15, 1953. Refunding of 2-percent bonds maturing Sept. 15, 1953. New cash of about \$2.5 billion in October.	Refund with 1-year certificates, or possibly a somewhat longer issue if conditions at time favor it. Offer optional exchange for 1-year 2½-percent certificates or 2½-percent notes maturing in about 3½ years. Preliminary recommendation to sell additional notes of about 3½-year maturity, or longer if market conditions are favorable. Would not be prudent to sell new long-term bonds at this time.	Offered exchange for 1-year 2½-percent certificates. Offered optional exchange into 1-year 2½-percent certificates or 3½-year 2½-percent notes. (See meeting of Oct. 13, 1953, below.)
Oct. 13.....	New cash of \$1½ to \$2 billion in early November. Refunding of 2½-percent notes on Dec. 1, 1953.	Issue \$2 billion of 2¼-percent bonds maturing in 3½ to 6 years. Preliminary recommendation for offer of an optional exchange for short-term and intermediate-term bonds (12- to 14-year 3-percent bond, or longer if market conditions permit). Exact terms would have to be determined by prevailing conditions at time of offering.	Offered late in October \$2.2 billion of 2¼-percent bonds maturing Sept. 15, 1961. (See meeting of Nov. 13, 1953, below.)
Nov. 13.....	Refunding of 2½-percent notes on Dec. 1, 1953.	Offer optional exchange for 2-percent notes maturing Mar. 15, 1955, or 3-percent bonds of about 15-year maturity; however, if holders of series F and G bonds maturing in 1st half of 1954 are not also offered the right to exchange into the same 3-percent bonds, the longer part of the optional exchange should be 2½-percent bonds maturing Dec. 15, 1958.	Offered optional exchange of 1½-percent notes maturing Dec. 15, 1954, or 2½-percent bonds maturing Dec. 15, 1958.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
1953 Nov. 13-----	Refunding 2¼-percent certificates on Feb. 15, 1954, and 1¾-percent notes on Mar. 15, 1954.	Consolidate issues in single refunding operation. Specific recommendations could not be presented at this time.	(See meeting of Jan. 20 1954, below.)
1954 Jan. 20-----	Refunding of 2¼-percent certificates on Feb. 15, 1954, and 1¾-percent notes of Mar. 15, 1954. Call on Feb. 15, 1954, for redemption on June 15 of the 2¼-percent bonds of 1954-56 and 2¼-percent bonds of 1952-55.	Combine refunding on Feb. 15, 1954, with option to exchange for 13-month 1½-percent notes or 2¼-percent bonds maturing in 6½ years or slightly longer. Call should be made for redemption on June 15.	Offered optional exchange of maturing issues for 12-month 1½-percent certificates or 2¼-percent bonds maturing in 7 years 9 months. Call was made on Feb. 15, but redemption of these issues, as well as the 2-percent bonds due June 15, was anticipated by offering holders right to exchange on Feb. 15 for the 2½-percent bonds maturing in 7 years 9 months also offered on the refunding.
Apr. 23-----	New cash of \$2 billion to \$3 billion after Mar. 15, Refunding of 2½-percent certificates due June 1, 1954. Refunding on June 15, 1954, of 2-percent bonds and remaining 2¼-percent called bonds that were not exchanged in February. New cash of \$2 billion in May. Refunding of 2-percent bonds maturing or callable in December 1954.	Sale of 3-percent long-term bonds, maturity to depend upon market conditions at time of offering. Offer holders option of a short obligation maturing within 18 months or 2¼-percent bonds maturing in last half 1960. Offer an exchange into only the short obligation maturing within 18 months. Sale for cash of \$2 billion of 2¼-percent bonds maturing in last half of 1960. Maturity should be anticipated by giving holders the privilege of exchanging into the 2¼-percent bond maturing in 1960. (Committee recommended that all of the above financing be combined in 1 operation in May.)	Offered \$1.5 billion of tax anticipation bills due June 24, 1954. Offered optional exchange for 1-year 1¼-percent certificates or 1½-percent notes due Feb. 15, 1959. Offered exchange into 1-year 1½-percent certificates. Offered \$2 billion of 1½-percent notes due Feb. 15, 1959. December maturities were not included in this financing operation. (Financing was combined in 1 operation in May.)
July 9-----	New cash of \$4 billion by Aug. 1, 1954. Refunding of 2½-percent certificates due Aug. 15 and Sept. 15, 1954. Call on Aug. 15, 1954, for redemption on Dec. 15 the 2-percent bonds of 1951-55.	Majority of committee recommended \$2 billion each of 1-percent notes maturing Sept. 15, 1955, and 1½-percent notes maturing Sept. 15, 1957; minority favored tax-anticipation certificates or notes maturing Mar. 18, 1955. Refund together their optional exchange for 1-percent certificates maturing Sept. 15, 1955, or 2½-percent bonds maturing Sept. 15, 1960. Call should be made on Aug. 15.	Sold \$3.7 billion 1-percent tax anticipation certificates maturing on Mar. 22, 1955. Offered optional exchange into 1-year 1¼-percent certificates or 2½-percent bonds due Nov. 15, 1960. Call was made.
Sept. 17-----	New cash of about \$3.5 billion in October. New cash of about \$1.5 billion in December. Refunding of 1½-percent notes and 2-percent bonds on Dec. 15, 1954.	Dual offering of 1½ percent tax certificates maturing June 22, 1955, and 1-year certificates of indebtedness. Preliminary recommendation that 3-percent long-term bonds be offered, maturity to be determined by market conditions. Preliminary recommendation that holders be offered an optional exchange of 1-year certificates or medium-term obligations with a maturity not to exceed 10 years.	Sold \$4.1 billion of 1½-percent notes maturing May 15, 1957. (See meeting of Nov. 18, 1954 below.) Do.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
1954 Nov. 18.....	Refunding of 1½-percent notes and 2-percent bonds on Dec. 15, 1954.	Offer holders option of a short obligation—either 1-year 1¼-percent certificates or 1½-percent certificates maturing Aug. 15, 1955; or a longer obligation—2½-percent bonds maturing in about 8 years.	Offered optional exchange into either: 1-year 1¼-percent certificates or 1½-percent certificates maturing Aug. 15, 1955; or 2½-percent bonds maturing in 8 years 8 months.
	New cash in December....	December cash financing anticipated in September proved unnecessary. Therefore committee recommended that long-term bond should not be offered at that time but should be done on the first appropriate occasion.	No new bond financing was undertaken.
	Issuance of FNMA debentures.	Expressed view that Treasury could sell at least \$500 million FNMA debentures if conditions were set forth as to FNMA credit from the Treasury, restrictions on amount offered against portfolio, maturity, and rate, and fiscal arrangements.	Offered \$500 million of 2½-percent FNMA 3-year notes in January 1955.
1955 Jan. 27.....	Refunding of 1½-percent certificates due Feb. 15, 1955, and 1½-percent notes due Mar. 15, 1955. Refunding of 2½-percent bonds called for redemption on Mar. 15, 1955.	Offer optional exchange of 1½-percent 13-month notes or 2½-percent notes maturing Dec. 15, 1957. Majority favored optional exchange for 1½-percent 13-month notes or 3-percent 40-year bonds. Minority favored \$1.5 billion cash offering of 3-percent 40-year bonds, with the 2½-percent bonds receiving same exchange option indicated above for the maturing notes and certificates.	Offered optional exchange of 1½-percent 13-month notes or 2-percent notes maturing Aug. 15, 1957. Offered optional exchange of 1½-percent 13-month notes or 3-percent 40-year bonds.
Apr. 17.....	Refunding of 1½-percent certificates due May 17, 1955.	Offer optional exchange for 1½-percent 1-year certificates or 2½-percent bonds due Dec. 15, 1958.	Offered exchange for only 2-percent 15-month notes.
	New cash of \$2.5 billion to cover maturity of tax-savings notes in May and June.	Make cash offering of \$2.5 billion of 1½-percent 1-year certificates.	Offered \$2.5 billion of 2-percent 15-month notes for cash.
		(Committee recommended that the refunding and cash offering be combined in one operation.)	(Financing was combined in 1 operation.)
June 24.....	New cash of \$3 billion in July.	Reopen subscriptions to 3-percent 40-year bonds due in 1995 for cash of \$750 million to \$1 billion; obtain balance through sale of 1½-percent tax anticipation certificates due Mar. 22, 1956.	Offered \$750 million of 3-percent bonds of 1995 and \$2 billion of tax-anticipation certificates due Mar. 22, 1956.
	Refunding of 1½-percent certificates due Aug. 15, 1955.	Offer optional exchange for 1-year 2-percent certificates (or 11-month certificates), or the outstanding 2½-percent bonds maturing Dec. 15, 1958. (Suggested refunding be done at time of cash offering.)	Offered optional exchange for 1-year 2-percent notes due Aug. 15, 1956, or 2-percent tax-anticipation certificates due June 22, 1956. Did not offer the longer option. (Terms of financing were withheld until payment date of cash tax certificate financing announced earlier.)
	Retirement of maturing tax savings notes.	Obtain funds by increasing bill offerings by at least \$100 million each week for cycle of 13 weeks.	Offered \$100 million of additional bills each week between July 27 and Sept. 29.
Sept. 25.....	New cash of \$2.5 billion at end of September.	Offer 2¼-percent tax-anticipation certificates due June 22, 1956.	Sold \$3 billion of 2¼-percent tax-anticipation certificates due June 22, 1956.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
1955 Nov. 18.....	Refunding of 1¼-percent certificates and 1¼-percent notes on Dec. 15, 1955. New cash of \$1 billion by year end.	Offer single exchange for 1-year 2½-percent certificates. Make cash offering of tax-anticipation bills due Mar. 22, 1956.	Offered optional exchange of 1-year 2½-percent certificates or 2½-year 2½-percent notes. Sold in December \$1.5 billion of tax anticipation bills due Mar. 23, 1956, on competitive bids.
1956 Feb. 29.....	Refunding of 1½-percent notes due Mar. 15, 1956, and 1½-percent notes due Apr. 1, 1956. Call by May 15, 1956, of 2¼-percent bonds of 1956-59 for payment on Sept. 15, 1956.	Suggested combined refunding. Majority favored optional exchange for 2¼-percent certificates due Feb. 15, 1957, or outstanding 2½-percent notes due June 15, 1958; also later offering of \$500 million additional 3-percent bonds of 1955 for cash or advance exchange of 2½-percent bonds of 1956-58. Minority favored single exchange for 2½-percent certificates due Feb. 15, 1957, to be coupled with \$500 million cash offering of 3-percent bonds of 1955 at time of refunding. Call should be made.....	Offered optional exchange for 2½-percent certificates due Feb. 15, 1957, or 2½-percent notes due June 15, 1958. No long-term bonds were offered. Call was made.
1956 July 12.....	Refunding of 2 percent notes due Aug. 15, 1956. Refunding of 2¼ percent bonds called for redemption on Sept. 15, 1956. New cash of \$2½ billion in August or September.	Offer exchange for 2¼ percent notes due Aug. 1, 1957. Obtain funds by increasing bill offerings by \$100 million weekly for a 13-week cycle. Offer tax anticipation issue due on or about Mar. 22, 1957.	Offered exchange for 2¼ percent notes due Aug. 1, 1957. Paid off the bonds in cash. Did not increase weekly bill offering. Sold in August \$3.2 billion of 2¼ percent tax anticipation certificates due Mar. 22, 1957.
Nov. 15.....	Refunding of 2½ percent certificates due Dec. 1, 1956.	Offer optional exchange for 3¼ percent tax anticipation certificates due June 21 or 24, 1957, or 3½ percent certificates due Nov. 29, 1957.	Offered optional exchange for 3¼ percent tax anticipation certificates due June 24, 1957, for 3¼ percent certificates due October 1, 1957.
1957 Jan. 31.....	Refunding of special bills due Feb. 15, 1957, 2½ percent certificates due Feb. 15, 1957, 2½ percent notes due Mar. 15, 1957, and 1½ percent notes due Apr. 1, 1957.	Offer holders of all 4 issues optional exchange for 3½ percent certificates due Feb. 14, 1958, or 3½ percent notes due Feb. 15, 1960.	Refunded bills with tax anticipation bills due June 24, 1957. Offered 2½ percent certificates and 2½ percent notes optional exchange for 3½ percent certificates due Feb. 14, 1958, or 3½ percent notes due May 15, 1960. Offered 1½ percent notes exchange for the 3½ percent notes due Feb. 14, 1958.
Mar. 13.....	New cash of about \$3 billion after March tax date.	Sale for cash of 3½ percent notes due Apr. 15, 1958 with privilege of conversion at maturity into bonds of 12- to 14-year maturity.	Offered \$2¼ billion of 3½ percent certificates due Feb. 14, 1958, and \$¾ billion 3½ percent notes due May 15, 1960. (This was a reopening of issues offered in February refunding.)
Apr. 14.....	Refunding of 1½ percent notes due May 15, 1957.	Offer optional exchange for (1) certificates due May 1, 1958 at rate of not more than 3½ percent (or a shorter maturity if market rates so dictated) or (2) 3½ percent notes due May 1, 1960 and convertible into 3½ percent 15-year bonds.	Offered optional exchange for 3½ percent certificates due Apr. 15, 1958, or 3½ percent notes due Feb. 15, 1962.

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Date of committee report	Financing problem	Committee recommendations	Treasury offerings
July 17.....	Refunding of 2¼ percent notes due Aug. 1, 1957, 2 percent notes due Aug. 15, 1957, 3¼ percent certificates due Oct. 1, 1957, and 1½ percent notes due Oct. 1, 1957.	Offer holders of all four issues optional exchange for 3¾ percent certificates due Apr. 15, 1958, or 4 percent notes due in July 1959, with right of holder to extend maturity for 3 additional years.	Offered optional exchange for 3¾ percent certificates due Dec. 1, 1957, 4 percent certificates due Aug. 1, 1958, or 4 percent notes due Aug. 1, 1961, but redeemable at option of holder on 3 months' advance notice on Aug. 1, 1959. However, October maturities were restricted to 4 percent certificates or extendable notes.
Sept. 10.....	New cash of about \$3.5 billion in late September and early October. To keep within debt ceiling, \$3 billion before Oct. 1, and the other \$0.5 billion after maturity of Oct. 1 issues.	To obtain \$3 billion, offer \$1 billion of 4 percent certificates due Aug. 1, 1958, and \$2 billion of 4 percent notes due Aug. 1, 1961, redeemable on Aug. 1, 1959 at holder's option. To obtain \$0.5 billion, concurrent with above offering announce offering of 10-year 4 percent bonds, payment to be made in early October.	Offered \$3 billion for cash as follows: \$500 million of 4 percent bonds due Oct. 1, 1969, \$1.75 billion of 4 percent notes due Aug. 1, 1962, but redeemable at option of holder at end of 2½ years, and \$750 million of 4 percent certificates due Aug. 1, 1958.
Nov 14.....	Refunding of 3½ percent certificates due Dec. 1, 1957. New cash of about \$1.5 billion.	Offer exchange for 3¾ percent certificates due Dec. 1, 1958. Offer \$1 billion of 4 percent 5-year notes and \$500 million 4 percent 17-year bonds. Because of debt limit, payment on two issues to be 50 percent on Nov. 26, and 50 percent on or about Dec. 2. If 17-year bond not offered, all \$1.5 billion should be in a 5-year note.	(See meeting of Nov. 18, 1957, below.) See meeting of Nov. 18 1957, below.)
1957 Nov. 13.....	Review recommendations of Nov. 14, 1957, due to change in market following lowering of discount rate.	Offer exchange for 3¼ percent certificates due Dec. 1, 1958. New cash offering of \$1 billion of 3¾ percent 5-year notes and \$500 million of 3¾ percent 17-year bonds.	Offered for exchange 3¾ percent 1-year certificates due Dec. 1, 1958. Offered for cash \$1 billion 3¼ percent notes due Nov. 15, 1962, and \$500 million 3¾ percent bonds due Nov. 15, 1974.
1958 Jan. 28.....	Refunding: recommend which issues of notes, certificates, and bonds maturing in first half of 1958 should be refunded in early February; whether special bills maturing Apr. 15 should be offered an exchange; and refunding terms. Cash: should offering be made at time of refunding, if legislations raising debt limit passed by then? Call on Feb. 14, 1958, for redemption on June 15, the 2¼-percent tax exempt bonds of 1958-63.	Offer holders of 3¾-percent certificates due Feb. 14, 1958, 2½-percent bonds due Mar. 15, 1958, 1½-percent exchange notes due Apr. 1, 1958, 3½-percent certificates due Apr. 15, 1958, and special bills due Apr. 15, 1958, an optional exchange for 2½-percent 1-year certificates, 3-percent obligations maturing in 5 or 6 years, or 3½-percent 30-year bonds. Defer refunding of June maturities. Delay consideration of cash financing until after the refunding and change in the debt limit. Call should be made.....	Offered recommended issues optional exchange for 2½-percent certificates due Feb. 14, 1959, 3-percent bonds due Feb. 15, 1964, or 3½-percent bonds due Feb. 15, 1990. Following refunding operation and raising of debt limit, offered for cash \$1.25 billion 3-percent bonds due Aug. 15, 1966. Call was made.
Apr. 1.....	New cash of about \$3,500,000,000.	Offer \$3,500,000,000 of 2½-percent notes due Feb. 15, 1963.	Offered \$3,500,000,000 of 2½-percent notes due Feb. 15, 1963.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
May 20.....	Refunding of 2½-percent notes, 2¾-percent bonds, and 2½-percent bonds on June 15, 1958.	Offer holders optional exchange for 1¾-percent notes due Aug. 14, 1959, 2½-percent bonds due Feb. 15, 1965, 3-percent bonds due May 16, 1971, or 3¼-percent bonds due May 15, 1985.	Offered optional exchange for 1¼-percent certificates due May 15, 1959, or 2½-percent bonds due Feb. 15, 1965. Offered for cash \$1,000,000,000 of 3¼-percent bonds due May 15, 1985, at price of 100½.
July 17.....	Inclusion of two bond issues called for redemption on Sept. 15, 1958, in June refunding. Refunding of 4-percent certificates due Aug. 1, 1958, and bond issues called for redemption Sept. 15, 1958. Cash financing of undetermined amount in August.	Refunding of called bonds should be deferred. Offer holders of all issues exchange for 1½-percent 1-year certificates due July 31, 1959. Refunding announcement should assure the market that the August cash financing would be in securities with maturity of less than 1 year. Offering should be tax anticipation certificates or bills maturing in March 1959 but exact terms would depend upon amount of cash to be raised and condition of short-term market at time of offering.	Refunding limited to June maturities. Offered exchange for 1½-percent certificates due Aug. 1, 1959. Announcement made as suggested. Offered \$3,500,000,000 of 1½-percent tax anticipation certificates due Mar. 24, 1959.
Sept. 23.....	New cash of about \$3,500,000,000.	Offer up to \$1,000,000,000 of 3½-percent notes due May 15, 1960; and later auction about \$2,750,000,000 of special bills due May 15, 1959.	Offered \$1,000,000,000 of 3½-percent notes due Nov. 15, 1959, at par and \$2,500,000,000 special bills due May 15, 1959, at a price of 98.023 to yield 3.25 percent.
1958 Nov. 7.....	Refunding of 3¾-percent certificates due Dec. 1, 1958, and 2½ percent bonds due Dec. 15, 1958. New cash in December.... Should part of about \$4,500,000,000 cash needed for period January to March 1959, be obtained by additional weekly bills.	Offer optional exchange for certificates due in November 1959 or notes due in 4 to 5 years. Securities should be priced at rates sufficient at time of offering to avoid large attrition and with the longer issue above the shorter issue to encourage extension of debt. Offer \$3,000,000,000 of tax anticipation bills due June 22, 1959, on auction basis. Meet the problem by making offering during January-March period.	Offered optional exchange into 3½ percent certificates due Nov. 15, 1959, at 99.95 percent of par or 3¾ percent notes due May 15, 1961, at 99½ percent of par. Offered at auction \$3,000,000,000 tax anticipation bills due June 22, 1959. Undertook additional bill financing by introducing new cycle of both 13-week and 26-week bills.
1959 Jan. 8.....	New cash of about \$2.25 billion. Preliminary recommendations on February refunding.	Offer \$750 million of 4-percent bonds due Feb. 15, 1960, at price of 99 to yield 4.07 percent, and auction \$1.5 billion of tax anticipation bills due Sept. 22, 1959. Under then existing conditions a 3-way optional exchange for 1-year certificates, 3-year to 5-year notes, or bonds with maturity of about 10 years.	Offered \$750 million of 4-percent bonds due Feb. 15, 1960, at a price of 99 and \$2.5 billion of 3¼-percent notes due May 15, 1960, at a price of 99½ to yield 3.45 percent.
Jan. 29.....	Refunding of 2½-percent certificates due Feb. 14, 1959, and 1¾-percent notes due Feb. 15, 1960.	Offer optional exchange for 3¼-percent certificates due Feb. 15, 1960, or 4-percent notes due Feb. 15, 1962.	Offered optional exchange for 3¼-percent certificates due Feb. 15, 1960, or 4-percent notes due Feb. 15, 1962.

Date of committee report	Financing problem	Committee recommendations	Treasury offerings
Mar. 19.....	New cash of about \$4 billion.	Offer \$500 million of additional 4-percent bonds due Oct. 1, 1969, at par, \$1.5 billion 4-percent notes due May 15, 1963, at par, and approximately \$2 billion special bills due Nov. 15, 1959 at auction.	Offered \$500 million additional 4-percent bonds due Oct. 1, 1969, at par, about \$1.5 billion 4-percent notes due May 15, 1963, at par, and about \$2 billion of special bills due Jan. 15, 1960. Bill auction followed subscription closing on bonds and notes.
Apr. 19.....	Refunding of special bills and 1½-percent certificates due May 15, 1959. New cash of about \$1.5 to \$2 billion.	Offer holders of special bills exchange for 3¼ percent tax anticipation obligations due Dec. 22, 1959, and holders of 1½-percent certificates exchange for 3½-percent certificates due May 15, 1960, at price to yield about 4 percent. Auction for cash special bills due Apr. 15, 1960.	Redeemed special bills in cash. Offered 1½-percent certificates exchange for 4-percent certificates due May 15, 1960, at 99.95 to yield 4.05 percent. Auctioned for cash \$2 billion special bills due Apr. 15, 1960, and \$1.5 billion tax anticipation bills due Dec. 22, 1959.
June 25.....	New cash of about \$5 billion.	Auction for cash \$3 billion of tax anticipation bills due Mar. 22, 1960, and later, \$2 billion special bills due July 15, 1960.	Offered at auction \$3 billion of tax anticipation bills due Mar. 22, 1960, and \$2 billion special bills due July 15, 1960.
July 16.....	Refunding of 1½-percent certificates and 4-percent notes, due Aug. 1, 1959. New cash in August.....	Redeem 4-percent notes in cash. Offer 1½-percent certificates optional exchange for 4¼-percent issue due Aug. 1 or 15, 1960, or 4½-percent notes due May 15, 1964. Refunding announcement should state August cash financing to be limited to short-term securities maturing in less than 1 year.	Offered notes and certificates optional exchange for 4¼-percent notes due Aug. 15, 1960 or 4½-percent notes due May 15, 1964. (Not yet announced.)