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1961
JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1961 ECONOMIC REPORT
OF THE PRESIDENT

WITH

MINORITY AND OTHER VIEWS

Printed for the use of the Joint Economic Committee

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CONTENTS

CHARTS

TABLES

87TH CONGRESS 1st Session } HOUSE OF REPRESENTATIVES { REPORT No. ——

1961 JOINT ECONOMIC REPORT

MARCH —, 1961.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

REPORT

with

MINORITY AND OTHER VIEWS

REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1961 ECONOMIC REPORT OF THE PRESIDENT

FOREWORD

The Employment Act of 1946 declares it shall be the continuing policy and responsibility of the Federal Government—

> * * * to coordinate and utilize all its plans, functions, and resources * * * to promote maximum employment, production, and purchasing power * * *.

By way of assuring systematic attention to the national policy, the act requires periodic examination of the state of the economy, of the plans, policies, and resources of the Federal Government, and a program for carrying out the national policy. Thus, the President is required to submit to Congress at least once a year an Economic Report setting out the levels of employment, production, and purchasing power, foreseeable economic trends, and his program for meeting the stated objectives of the act. Similarly, the act requires the Joint Economic Committee to make a continuing study of matters relating to the Economic Report and, as a guide to the other committees of the Senate and the House, to submit also at least once a year a report of its findings and recommendations.

In drawing up its present report, the committee has had the benefit of an unusually large variety of data and analyses, occasioned by the rather infrequent circumstance that analyses and programs of both an outgoing administration and a new administration have been available for considering essentially the same economic setting.

On January 18, President Eisenhower submitted his Economic Report—a report which was predicated, among other things, on his proposed budget for fiscal 1962 which had previously been submitted to Congress on January 16, 1961. Since President Kennedy took office on January 20, the new administration has submitted a number of economic messages, setting out changes or modifications both in the previous appraisal of the economy and in the programs proposed for meeting the economic objectives of the Employment Act. These later changes and modifications result in part from a reevaluation of the economic outlook presented in the Economic Report of January 18, while other program changes and modifications reflect, quite naturally, the distinctive policies and emphases of one administration as contrasted to those of another.

In addition to the Economic Report of January 18, the committee has had the benefit of President Kennedy's economic message of February 2, several other Presidential messages on specific economic topics, and an exhaustive economic statement presented by the new Council of Economic Advisers. During the past few weeks we have had testimony not only from the Council of Economic Advisers, but also from the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Bureau of the Budget, the Assistant Secretary of Defense, and a number of highly qualified experts from business, farm, labor, and academic organizations. In addition, in December we heard testimony from several academic, Government, business, and labor economists on many of the subjects with which we are now concerned. We now make our report.

The Economic Situation and Outlook

The 1960–61 recession is, we believe, and hope, at a turning point. However, of all the expert witnesses we have heard, the most optimistic expected that, by the end of the year, 6 to 7 percent of the labor force will still be unemployed and unemployment would not be reduced to as low as 4 percent by the end of 1962. These expectations are based, moreover, on the assumption that the administration's legislative program will be promptly enacted, and that there will be a continued substantial increase in expenditures by State and local governments.

Although a moderate rise in production is expected throughout the remainder of the year—and beyond—this will hardly do more than provide jobs for the normal growth in the labor force. In other words, while the economy is expected to run faster, it will run only fast enough to stand still. In fact, the gap between the Nation's production and its capabilities to produce could widen. There is no doubt that the Nation's capital resources will be greater, and no doubt that productivity per worker will increase. And, whereas at last count (March) almost 5 million members of the work force were totally unemployed (on a seasonally adjusted basis)—and another 3 million were working on part-time jobs or short workweeks—a 6-to-7-percent rate of unemployment by the end of the year will mean total unemployment for 4 to 5 million members of the work force.

But these figures, based on the official definition of unemployment and labor force, substantially understate the unemployment problem. The labor force figures include the self-employed and unpaid members of their families to the extent of over 10 million. If these individuals are subtracted from the "labor force" figure of 71 million, then we find that the unemployment rate (without seasonal adjustment) was not 7.7 percent as usually reported, but 9.1 percent. This is indeed a serious situation.

Experts testifying before the committee in December and again in the past 2 months expected an economic recovery during 1961, beginning not later than midyear. (Some analysts now conclude that the low point already has been reached and possibly passed.) These experts expected recovery to be brought about by—

(1) A continued rise in Federal, State and local government payments to consumers and business—amounting to $6 to $9 billion per year between the fourth quarters of 1960 and 1961;

(2) A turn around in business inventory activity—from liquidation at a rate of $3 billion per year in the fourth quarter of 1960 to accumulation at a rate of $2 to $3 billion per year by the end of this year;

(3) A rise in business spending for new plant and equipment to a year-end rate about equal to that at the end of 1960; and

(4) A rise in consumer spending in response to rising personal incomes, bolstered by increased unemployment compensation payments, increased homebuilding activity, and an end to the exceptionally unfavorable weather of midwinter.

In total, these prospects suggest a recovery, measured by gross national product, from an annual rate of about $499.5 billion in the first quarter of the year to about $520 to $530 billion in the fourth quarter of the year.

The revenue estimates for fiscal 1962 presented by the administration assume an average GNP for calendar 1961 of $510 to $513 billion. Since the first quarter figure is $499.5 billion, it would be necessary for GNP to rise to a level between $520 and $530 billion by the fourth quarter in order for the year to average $510 to $513 billion. This would be in line with the outlook summarized above.

This would mean a rise in output of only 3 to 5 percent from the fourth quarter 1960 recession level to the fourth quarter 1961 (measured in current prices). In real terms it would more likely mean an increased output of only 2 to 3 percent, as some rise in the implicit price deflator for the GNP is generally expected, although the Federal programs which have been proposed are not a significant factor in this expectation.

An economic recovery of such magnitude will not wipe out the employment deficits of the past year, nor at best, do more than keep pace with the Nation's growing labor force.

Recovery from the 1960–61 recession, if there is recovery, emphasizes a singular and most disturbing fact. Since 1953, each recession has been followed by less and less complete recovery. Each recovery period has left a higher percentage of the labor force unemployed than before, and a wider gap between the Nation's production and its productive capabilities.

Thus, in the first 9 months of 1953, unemployment never rose to as much as 3 percent. In the recovery period following the 1953–54 recession, however, unemployment fell to only 4 percent (in the first half of 1957). Then, following the 1957–58 recession, the rate of unemployment fell to only 5.2 percent (in the first half of 1960).

From the beginning of the economic downturn in May of last year to February 1961, industrial production dropped by 7.2 percent; retail sales by 3.2 percent; and nonagricultural employment by 2.1 percent, all on a seasonally adjusted basis.

Economic losses in the calendar year 1960 alone were staggering. Had unemployment been maintained at an average rate of, say, 4 percent, instead of the actual rate of 5.6 percent, the gross national product for the year would have been $30 to $35 billion more than was actually produced. Similarly, personal disposable (after tax) income would have been about $14 billion more; business profits would have been about $12 to $13 billion more, and the Federal, State, and local governments would have taken in about $13 to $15 billion more in tax revenues.

The loss of $30 to $35 billion in unused potential last year is equal to $500 per American household. It is almost twice the amount spent on public education; about 1½ times the amount spent on new homes; or about two-thirds the amount spent on national defense. We agree with the Council of Economic Advisers that: "Even the world's most prosperous nation cannot afford to waste resources on this scale." Nor can the Nation afford the human misery which attends such waste, even if it could afford the economic waste.

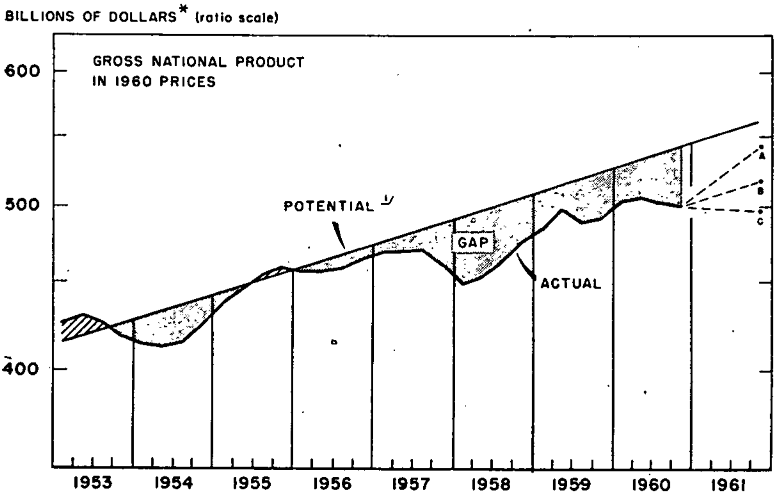
Using calculations contained in one of the committee's recent staff reports,[1] the Council of Economic Advisers has illustrated in chart form the amounts of real goods and services lost to the Nation in the past 8 years through failure to maintain "reasonably full" employment, production, and purchasing power. (See chart 1.) Specifically, 3½ percent annual growth rate is taken as a conservative estimate of the Nation's economic growth potential, and a 4-percent unemployment rate is taken as a "reasonable target for full utilization of resources consistent with reasonable price stability"—a "target" which was surpassed in 1951–53 and approached in late 1955 and early 1956.

As compared to what would have been produced if these "targets" had obtained during the past 8 years, the Nation's actual production has involved an average annual loss of $17 billion (in 1960 prices). But what is of more concern, our production gap has been widening. Thus, at the level of unemployment prevailing at the end of the first quarter, 1961, our current production gap is about $50 billion annually.

On the basis of past and expected trends, what, then, does a projected 2 to 3 percent real increase in GNP between the fourth quarter of 1960 and the fourth quarter of 1961 portend for employment prospects in the longer run?

CHART 1

Gross National Product, Actual and Potential, and Unemployment Rate



1 3½% trend line through middle of 1955.
*Seasonally adjusted annual rates.

NOTE.—A, B, and C represent GNP in 1961 IV assuming unemployment rate of 5%, 6½%, and 8%, respectively.

Sources: Department of Commerce, Department of Labor, and Council of Economic Advisers.

[1] See "The Potential Economic Growth in the United States," Study Paper No. 20, prepared by James W. Knowles in connection with the Study of Employment, Growth, and Price Levels (86th Cong., 2d sess. 1960).

Assuming, for illustrative purposes, that the excessive unemployment at present is that which exceeds an unemployment rate of 4 percent, then it is evident that an increase in real output of 2 to 3 percent by the fourth quarter of this year will not provide sufficient employment to absorb the present excess unemployed plus the normal annual 1½ to 2 percent increase in the labor force. Furthermore, if we assume, without good basis, that next year a further increase in production of 7 to 8 percent is achieved (the maximum rate at which real output has increased during any postwar recovery period), the total increase in output for the 2-year period would be only 6 to 7 percent more than the 2-year growth in the labor force. In the 2 years in which such an increase in production might be achieved, however, output per man-hour could be expected to increase by at least as much as the long-run average 2 percent per year. (In previous recovery periods output per man-hour has risen two or three times as fast.) Furthermore, it must be expected that average hours of work per worker would rise—as is always the case when the economy is in a period of recovery.

In summary, if the most optimistic estimates we have heard are realized, more than 6 percent of the labor force will be unemployed at the end of this year, and unemployment will not be reduced to a level as low as 4 percent by the end of 1962.

While large-scale unemployment continues to be in prospect, witnesses testifying before the committee have expressed conflicting views concerning the nature of the unemployment and hence the policies which are appropriate for reducing unemployment to reasonable levels. These differences of opinion revolve around questions as to how much of the increasing unemployment of recent years is of a "structural" nature—that is, to what extent the skills of the unemployed have been rendered obsolete by automation and other technological and market changes—and to what extent the unemployment results simply from an insufficiency in overall demand.

Thus Chairman Martin of the Federal Reserve Board has expressed the view that structural unemployment "is manifest in the higher total of those left unemployed after each wave of the three most recent business cycles," and has expressed apprehension that conventional monetary and fiscal policies, to have an important effect, would have to be applied in such massive doses "as to create serious new problems of inflationary character."

On the other hand, Chairman Heller of the President's Council of Economic Advisers, has expressed the view that 4-percent unemployment is an adequate estimate to cover both structural and frictional unemployment and has suggested that a rate of 4 percent is attainable, with reasonable price stability, though he has not suggested when such a target might be adopted.

The committee is undertaking an inquiry to develop information on the extent to which unemployment is due to frictional and structural causes, on the one hand, and to inadequate demand on the other. Such information should be most useful in future assessments of the problem, as well as in suggesting the extent to which retraining programs should be undertaken. We do not, however, recommend that substantial monetary and fiscal actions be deferred while this new study is going forward. On the contrary, the urgencies of both our domestic and international responsibilities suggest that an interim target of a 4-percent unemployment rate could and should be adopted now for achievement at some time in the not indefinite future.

We have no doubt about the inherent strength of the American economy, and we have no doubt about the inherent abilities of the American people. Our wartime experiences offer spectacular proof that technicians and workers can be trained to do a wide variety of new jobs, and in short order. When the underlying demand for goods and services has been adequate, workers have usually been able to adjust to the jobs to be done; and business firms have usually found incentives to invest and, where sufficient competition was present, to make cost-saving innovations.

We have no doubt, either, that if both monetary and fiscal policies are properly used the economy can be brought to a rapid recovery without a substantial increase in the price level. If contrary to our belief, there are sound reasons why monetary policies cannot now be adjusted to the requirements of the U.S. economy, then surely additional acceptable activities in the fiscal field can be found for offsetting the drag of monetary policies, without creating any need for intervention in private price and wage decisions. Already proposals have been advanced which would offset the drag of present high interest rates on home purchases and on investment in new plant and equipment. The weeks ahead surely will produce other good ideas for compensating for the drag of monetary policies on other sectors of the economy.

On the other hand, there is no doubt that the advancements in science and technology which are taking place are increasing the educational and skill requirements of our people. And there is no doubt that the Nation's ability to keep abreast of the space age will depend in very large measure upon its ability to make substantial advancements in education, mental and physical health, and in technical training. For these reasons it is essential for the future that we adopt now such measures as have been proposed for aid to education and to the distressed areas, and that we turn our attention to programs for retraining workers whose skills are about to become obsolete.

Our recommendations for achieving these and our other economic goals are set out in the final section of this report.

ACTIONS FOR ECONOMIC RECOVERY AND GROWTH

Imperfect as our national policies for economic stabilization may be, and imperfect as economic wisdom is for designing and using such policies, a backward glance will suggest that both our economic wisdom and policies are vastly improved from times past. As late as only 30 years ago, the orthodox view held that in times of economic recession the appropriate action of Government was to slash its own expenditures and, above all, to balance its budget. Inevitably, such fiscal policies accentuated recessions in the private economy and at other times accentuated inflationary booms.

We are pleased that in his budget message of March 24, 1961, the President has declared as his policy several key principles of modern economic thought which this committee has frequently endorsed—namely, Federal revenue and expenditure levels must meet effectively and efficiently essential national needs for public programs; the budget, apart from a new threat to national security, should be set so as to incur deficits in recessions, to counter declines in private spending, and to produce surpluses in prosperous years, to curb inflation, reduce the public debt, and free funds for private investment; and, Federal tax and expenditure programs should contribute to economic growth and maximum employment within a setting of reasonable price stability.

Immediately after taking office on January 20, the new administration acted to speed up programs for which obligational authority was already available, such as Federal highway and post office construction, and other Federal agency procurement and construction programs.

Executive orders were issued to speed up the return of funds owed the public. Thus the Veterans' Administration was directed to advance the payment of $258 million of veterans' life insurance dividends, and the Treasury was asked to institute a program for earlier tax-refund payments. The policy of deferring part of the payments due Department of Defense contractors was suspended.

In addition, several actions were taken to speed up housing programs and ease housing credit. The maximum interest rate on FHA-insured loans was reduced from 5¾ to 5½ percent, and an educational campaign was instituted to encourage mortgage lenders to reduce their rates. As a step toward possible adoption of monetary policies to lower actual mortgage rates—and indeed all long-term interest rates—the Federal Reserve announced it would abandon its "bills only", or "bills mostly", policy.

All of these actions to speed up activity on Federal projects, speed up the return of funds to the private sector, and—as far as they go—to lower interest rates, unquestionably are serving to stimulate the private economy and increase employment.

The principal stimulant which the economy so desperately needs at this point is, however, to be found in the President's legislative program. Of the President's recommendations made up to and through April 20, 1961, the most important in terms of their general impact on the economy are:

Temporary extension of unemployment compensation.—Extending up to 13 weeks the period during which the unemployed may draw benefits will not only relieve the hardship of individual families but contribute importantly to maintaining consumer demand.

Aid to education.—The President's program in this field would give an immediate and substantial boost to the economy by stimulating needed school construction and increasing incomes of teachers. But beyond that, such a program is vital to the Nation's future economic growth. As we have said before, we believe that the greatest potential for economic growth lies in the improvement of our human capital.

Urban renewal.—The President's message calling for a $2.5 billion 4-year commitment for urban renewal, long-term loans for rental and cooperative housing, slum clearance, expanded insurance and home improvement loans, public housing for the aged and others, and additional aid for city planning, community facilities and housing research, is likewise most heartening. Clearly, the need of our people for the things envisioned by this program should not be allowed to go begging while such large percentages of our human and material resources are going idle.

Social security liberalization.—The President's proposals to increase minimum social security benefits, to provide for reduced retirement age of men, and to increase benefits for widows are not only a humane step toward raising the dignity and level of comfort of our older people, they also offer an opportunity to obtain a large stimulant to consumer demand for each dollar transferred.

Health program.—The President's recommended program in this field would provide a general economic stimulant by increasing construction of hospitals, nursing homes, and stimulating related activities. It would also increase services in a field where the public need is manifestly great.

Natural resources.—The President's legislative program calling for increased aid for waste treatment and air pollution, expansion of the saline water program, accelerated forest planting and related matters, would also have generally wholesome economic effects as well as accomplish programs which are much needed.

Extension of FHA programs.—The administration's proposals to extend the general FHA insurance program to permit a 40-year maximum mortgage period (instead of the present 30-year maximum), to remove the downpayment requirement, and to make other changes to ease housing credit are consistent with the congressional goal, expressed in 1949, of "a decent home and a suitable living environment for every American family." The proposed legislation will directly help the 14 million families who now live in substandard or deteriorating homes. Housing has been a strong countercyclical force in each previous postwar recession, adding stability to the economy generally. The proposed program will have a particularly favorable effect upon employment in the construction industry, which currently has the highest rate of unemployment in any major industry.

In addition, the administration has acted and made recommendations in other fields to meet national needs which will have important short- or long-run economic effects. Thus President Kennedy's Executive order speeding up the Polaris and airlift programs, while taken only to step up our defense capability, will inevitably have some stimulating effects. The depressed areas bill, while small in terms of Federal outlays, will assist areas of high structural unemployment along the road to recovery. Legislative programs for Federal participation in aid to children of unemployed parents will improve the Nation's human capital.

SUMMARY

All of the administration actions taken to date and all of the legislative programs which the President has recommended—including a substantial increase in defense expenditures—are expected to cost $1.3 billion in the fiscal year ending next June and $3 billion in fiscal 1962. Total budget deficits in these years are expected to be $2.2 billion in fiscal 1961 and $2.8 billion in fiscal 1962.

It is heartening to note that the revised budget for fiscal 1961 and fiscal 1962 reflects a reordering of the national priorities such as we have previously recommended. Comprehensive programs for aid to education, depressed areas, slum clearance, health, and other activities which promote improvements in our human capital, and programs for resource development such as we have recommended in the past, have indeed been recognized in this budget.

Furthermore, we are, as indicated, in hearty agreement with the principles enunciated in the President's budget message of March 24, 1961. Certainly no dollar should be spent merely as a recessionary cure. Rather, every dollar spent should be prudently spent for proper and useful accomplishments. At the same time, however, we cannot help noting that the total effects of all the actions so far taken and proposed will be small as compared to the gap between the Nation's expected economic performance and its economic potential.

We appreciate that the legislative committees of Congress must, in acting upon the President's program, consider many questions of merit and public policy which this committee cannot presume to have considered. As to whether our economy can afford the measures in this program, however, we urge that our economy cannot afford to be denied them, and it cannot afford to have them long delayed. This program is both proper and needed to help carry out our national policy of promoting maximum employment, production, and purchasing power "* * * in a manner calculated to foster and promote free competitive enterprise and the general welfare * * *"

We urge that as a first step toward restoring economic recovery and setting the free enterprise economy on the road to a continuous and rapid rate of economic growth, the President's program be enacted promptly.

Monetary Policies

In the post-Korean period, the monetary authorities have followed a policy of suppressing increases in the money supply—and raising interest rates—in periods of economic expansion, then adding reserves to the credit potential of the member banks, thus tending to reduce interest rates, in periods of recession. While thus varying the level of interest rates from recession to recovery and back again, however, monetary policy has also pursued an upward trend in interest rates.

Just as each recession has brought a higher rate of unemployment than the previous recession, so, too, has each recession witnessed higher interest rates than the previous recession. Similarly, just as there has been a larger percentage of the work force unemployed than in the previous recovery period, so, too, have interest rates been higher than in the previous recovery period. (See chart 2.)

Throughout this period, progressive reductions in the effective money supply have been made, continuing a trend begun at the end of World War II. Thus, demand bank deposits plus currency in circulation was reduced from 37.4 cents per dollar of GNP in 1952 to 28.6 cents per dollar of GNP in 1960. Similarly, as the trend of interest rates has been up, so, too, has there been a steady increase in interest income. Personal income from interest rose from $12.1 billion in 1952 to $26.8 billion in 1960, an increase of 121.5 percent, or nearly 2½ times the rate at which total personal income increased.

At the conclusion of our Study of Employment, Growth, and Price Levels last year the committee made a report expressing strong objections to what we believed had been too great a reliance on monetary policies, to achieve stabilization and growth, and a corresponding neglect of fiscal policies. Thus, among other things, we recommended:

> 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. 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.

In recommending that the Federal Government put heavier reliance on fiscal policies—a recommendation we still urge—we were not unaware of the formidable restraints which high interest rates place on economic activity. Most certainly we did not mean to suggest that monetary policies should be frozen in a posture suitable to a period of serious overemployment—if suitable ever—during a period of acute recession.

On the contrary, in our annual report of last year we repeated our recommendations for improving monetary practices in the hope that monetary policies would become more flexible and capable of playing

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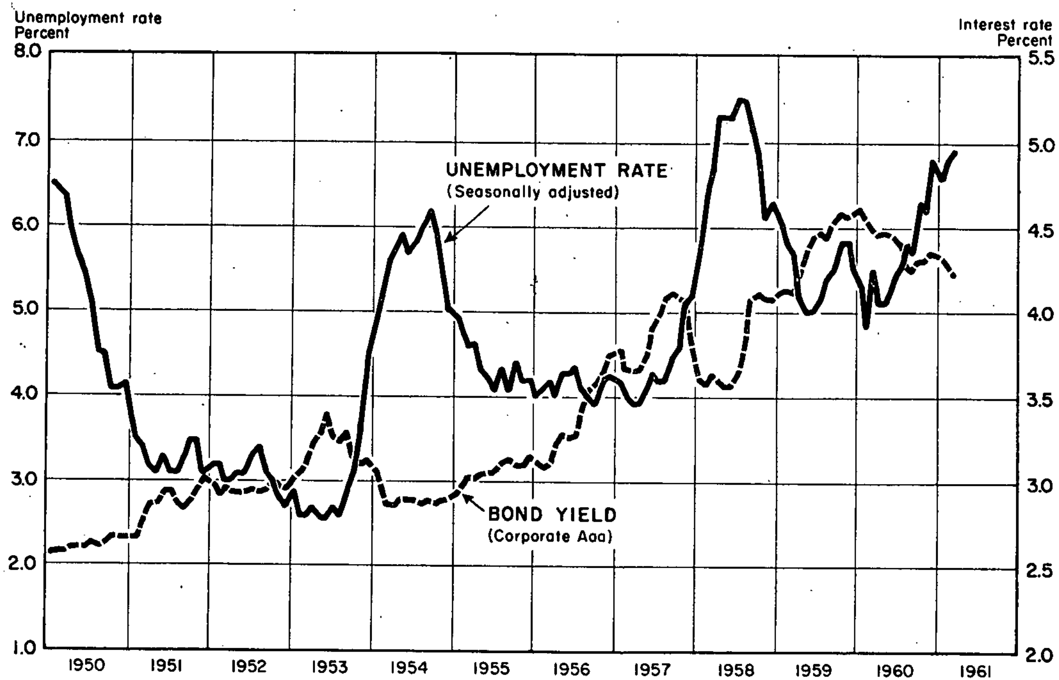
CHART 2

Rate of Unemployment and Long Term Bond Yield, 1950-'61



Source: Department of Labor and Federal Reserve Board.

a proper role in maintaining stability and growth. Specifically, we recommended that the Federal Reserve:

(a) abandon its discredited "bills only" policy,
(b) agree to build up its portfolio of long-term bonds, and
(c) use open market operations rather than lowering reserve requirements as the means of bringing about the secular expansion of credit which the Federal Reserve and the banks desire.

Finally, we recommended that the Federal Reserve permit the money supply to increase, over the long run, at about the same rate as the gross national product increases, "allowing for normal velocity."

Throughout the 1960–61 recession, interest rates have been maintained at levels suitable for helping combat overemployment in the economy. As compared to a Federal Reserve discount rate of 1.5 percent adopted in the 1953–54 recession, and a rate of 1.75 percent adopted in the 1957–58 recession, the discount rate has been held at 3.0 percent throughout the present recession. The highest percentage of the labor force unemployed during the 1953–54 recession was 6.2 percent; in the 1957–58 recession, 7.5 percent, while in March of this year 6.9 percent of the labor force was unemployed.

Indeed, even today the "prime" lending rate of the banks, at 4.5 percent, is equal to the highest reached in 1957, when monetary policies were aimed at checking what was, relatively speaking, a runaway boom. By the same token, market yields on corporate bonds have continued above the highest peak reached in the 1957 period.

TABLE 1.—*Interest rates, bond and mortgage yields* [1]

[Percent per annum]

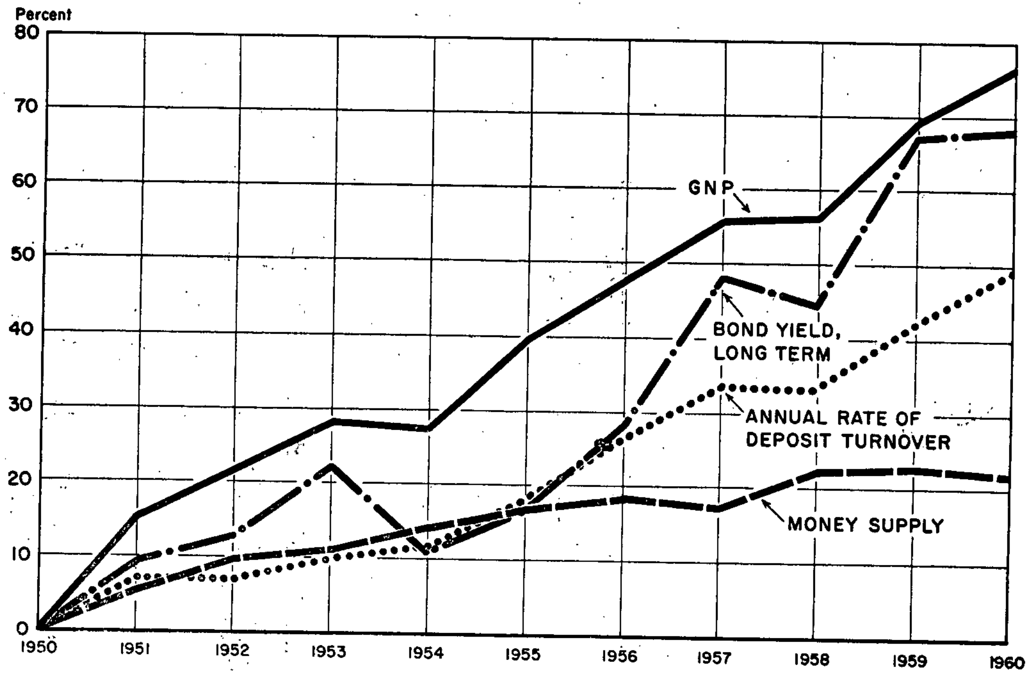
	Cyclical "high"			Cyclical "low"		
	1953–54	1957–58	1959–61	1953–54	1957–58	1959–61
U.S. Government securities:						
3-month bills	2.42	3.66	4.67	0.62	0.64	2.13
Long-term bonds	3.19	3.76	4.42	2.45	3.07	3.75
Corporate Aaa bonds (Moody's)	3.42	4.14	4.61	2.85	3.55	4.23
State and local Aaa bonds (Moody's)	2.73	3.45	3.65	1.90	2.64	2.99
FHA home mortgages	4.87	5.63	6.24	4.56	5.35	6.00
"Prime" rate	3.25	4.50	5.00	3.00	3.50	4.50
Discount rate	2.00	3.50	4.00	1.50	1.75	3.00

[1] Adapted from hearings, p. 348.

Between the fourth quarter of 1959 and the fourth quarter of 1960, while GNP increased by 3.5 percent, the money supply decreased by $1 billion. Thus, instead of allowing for normal velocity, the Federal Reserve has pursued an interest rate policy which helped to push velocity up to a new high record for the postwar years. (See chart 3.)

CHART 3

Percent Change from 1950 in Money Supply, Rates of Deposit Turnover, Bond Yield, and Gross National Product, 1950-1960



Source: Department of Commerce and Federal Reserve Board.

As to our recommendation that the "bills only" (or "bills mostly") policy be abandoned, we are pleased that the policy has now been abandoned—to whatever extent it has been abandoned. It might be noted, however, that our recommendation was based on the experiences over the decade in which this policy has been pursued—not on the new balance-of-payments problem which now gives added reason for abandoning this policy.

Since changes in interest rates operate chiefly on the level of investment, it is the long-term rate, rather than the short-term rate, which most directly affects the activities the monetary authorities have sought to control. These authorities have considered that an increase in interest rates has little, if any, immediate effect upon consumer purchases of nondurable goods, although an increase in rates held for a protracted period manifestly affects consumer demand for all goods, because of the regressive shifts in consumer purchasing power which higher rates bring about. Long-term interest rates do, of course, have both immediate and drastic effects on consumer purchases which involve long-term financial commitments, such as in the purchase of a house. Indeed, the administration's recent proposal for stimulating housing demand, by increasing the FHA mortgage term from 30 to 40 years, and by removing the downpayment requirement, rests on the fact that this will cut the monthly mortgage payment of the average FHA home buyer by 10 percent. The same result could be had by reducing the actual mortgage rate from the present 5½ percent to the 4½ percent level which prevailed as late as December 1956. This, too, would reduce monthly mortgage payments by 10 percent.

The problem which has arisen now—since the unusual run on our gold reserves in the latter half of last year—is how to reduce long-term rates, not after short-term rates have come down, but while holding short-term rates up. On February 20, the Federal Reserve announced that the Open Market Committee would begin purchasing long-term Government bonds—thus shifting some of its holdings from short-term to long-term securities—so as to reduce long-term rates without also reducing short-term rates.

Accordingly, during the following week, the Open Market Committee began purchasing long- and intermediate-term bonds, seemingly carrying out the announced policy. In this week, there was a significant drop in the market yields on long-term Government bonds. For example, yields on bonds of over 10-year maturities dropped from 3.81 percent on February 18 to 3.76 percent on February 25.

When the Federal Reserve's subsequent weekly report was published, however, it turned out that it had bought a total of only $13 million in bonds—$7 million in the 1- to 5-year maturity range, $6 million in the 5- to 10-year range, and none of longer maturity.

In the next week, the Open Market Committee bought bonds in more substantial amounts—but these amounts were still inconsequential. Market yields on all maturities rose slightly within the week. The report for that week revealed to the market that the Federal Reserve had bought only $81 million of bonds—$77 million in the 1- to 5-year bracket and $4 million in the 5- to 10-year bracket—in pursuit of the new program of reducing long-term rates.

Between February 22 and April 12, the Federal Reserve's total increased holdings of Government bonds amounted to only $500 million in the over-5-year maturity range, and to only $200 million in the 1- to 5-year bracket.

TABLE 2.—*Maturity distribution of U.S. Government securities held by Federal Reserve banks*

[In millions of dollars]

Date	Total	Over 5 years	Date	Total	Over 5 years
Jan. 1, 1960	$26,648	$1,470	Mar. 15, 1961	27,014	1,513
Jan. 1, 1961	27,384	1,440	Mar. 22, 1961	26,759	1,513
Feb. 1, 1961	26,695	1,450	Mar. 29, 1961	26,688	1,522
Feb. 8, 1961	27,061	1,450	Apr. 5, 1961	27,127	1,914
Feb. 15, 1961	27,161	1,450	Apr. 12, 1961	26,809	1,956
Feb. 22, 1961	26,701	1,456	Apr. 19, 1961		
Mar. 1, 1961	26,667	1,460	Apr. 26, 1961		
Mar. 8, 1961	26,920	1,495			

Source: Board of Governors, Federal Reserve System.

Meanwhile market yields on the 10-year bonds had risen again. On April 8, for example, the yield was above the yield which had prevailed on February 18, before the new program was announced. In this same 7-week period, market yields on 3- to 5-year issues had been reduced from 3.56 to only 3.45, while the yield on 91-day Treasury bills had increased from 2.462 percent to 2.470 percent.

TABLE 3.—*Market rates on U.S. Government securities, January–April 1961*

[Per annum basis]

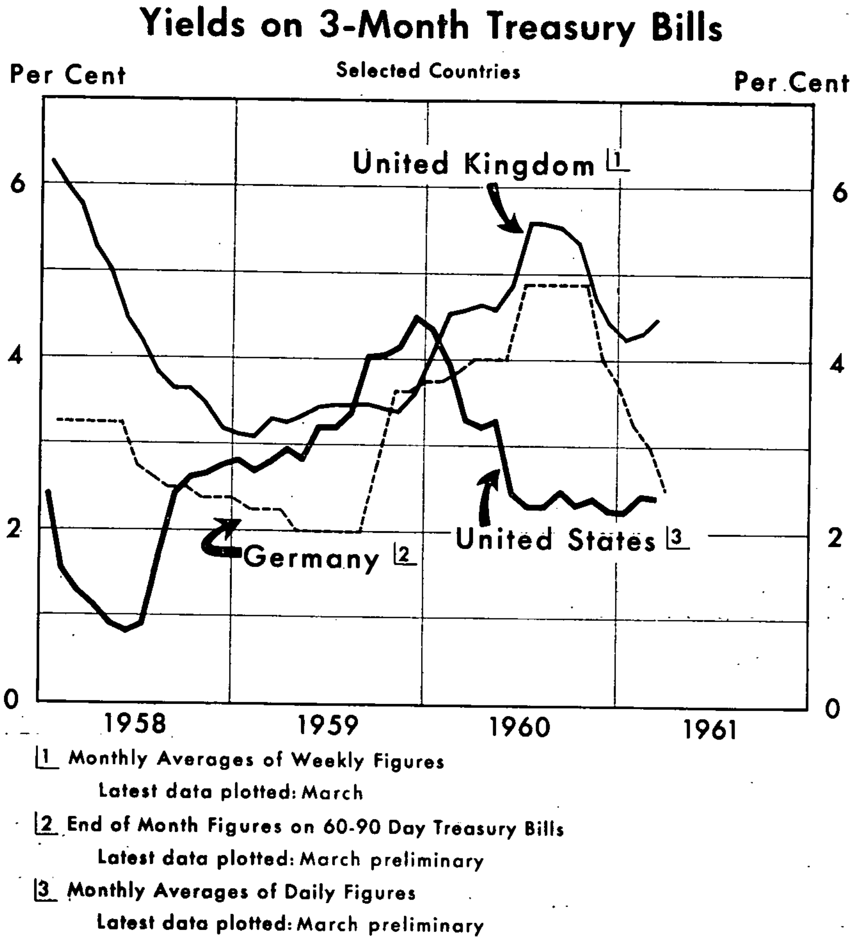
Week ending—	3-month bills (rate on new issues)	3- to 5-year issues	Long term (10 years or more)	Week ending—	3-month (bills rate on new issues)	3- to 5-year issues	Long term (10 years or more)
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
Jan. 7	2.234	3.39	3.84	Feb. 25	2.496	3.48	3.76
Jan. 14	2.385	3.52	3.90	Mar. 4	2.594	3.49	3.77
Jan. 21	2.358	3.59	3.92	Mar. 11	2.485	3.36	3.75
Jan. 28	2.230	3.57	3.89	Mar. 18	2.352	3.44	3.78
Feb. 4	2.299	3.57	3.88	Mar. 25	2.278	3.45	3.80
Feb. 11	2.374	3.56	3.84	Apr. 1	2.392	3.43	3.81
Feb. 18	2.462	3.56	3.81	Apr. 8	2.470	3.45	3.82

Source: Federal Reserve Board.

Recent sharp declines in European short-term interest rates, as well as the recent improvement in the U.S. balance of payments, would strongly suggest that Federal Reserve actions might have been taken to bring about a substantial reduction in rates in all ranges during recent weeks, and most especially in long-term rates. Yet long-term rates are substantially where they were at the beginning of the year, while short-term rates have been substantially increased.

On March 7, Chairman Martin gave the committee a supplemental statement saying that "* * * the Federal Reserve is currently following a monetary policy aimed at combating unemployment arising from contraction of overall demand." Yet, as we have pointed out, it is difficult to distinguish between the results of the policies being followed today and those followed in the past for the then-announced purpose of combating an overabundance of overall demand.

CHART 4



Source: Prepared by Research Department, Federal Reserve Bank of St. Louis.

The new policy of trying to reduce long-term rates without causing short-term rates to decrease is admittedly experimental. We cannot say what part the failure of this policy may be due to technical difficulties, what part is due to the Federal Reserve's belief that the unemployment is a "structural" matter, rather than a result of insufficient demand, and what part is due to its long established pursuit of an ascending level of interest rates.

We appreciate that international balance-of-payments position may indeed restrict somewhat the Federal Reserve's freedom to reduce interest rates as low as would be appropriate for recession in the domestic economy. However, it is manifest that the purchase of long-term bonds, for the purpose of reducing long-term interest rates, has been pursued with something considerably less than vigor.

We strongly urge that the Federal Reserve reduce long-term interest rates promptly and substantially. This can be done most effectively by (*a*) supplying the banks with adequate reserves and (*b*) engaging in rather substantial open-market operations in long-term securities.

More specific recommendations on this matter are set out in the final section of this report, where we also repeat our recommendations of last year with renewed emphasis.

TABLE 4.—*Long-term bond yields, 1950–60*

Year	Annual average yield (percent per annum)				Change from 1950 (1950=100)			
	U.S. Government [1]	State and local high grade [2]	Corporate [3]		U.S. Government	State and local high grade	Corporate	
			Aaa	Baa			Aaa	Baa
1950	2.32	1.98	2.62	3.24	100.0	100.0	100.0	100.0
1951	2.57	2.00	2.86	3.41	110.8	101.0	109.2	105.2
1952	2.68	2.19	2.96	3.52	115.5	110.6	113.0	108.6
1953	2.94	2.72	3.20	3.74	126.7	137.4	122.1	115.4
1954	2.55	2.37	2.90	3.51	109.9	119.7	110.7	108.3
1955	2.84	2.53	3.06	3.53	122.4	127.8	116.8	109.0
1956	3.08	2.93	3.36	3.88	132.8	148.0	128.2	119.8
1957	3.47	3.60	3.89	4.71	149.6	181.8	148.5	145.4
1958	3.43	3.56	3.79	4.73	147.8	179.8	144.7	146.0
1959	4.08	3.95	4.38	5.05	175.9	199.5	167.2	155.9
1960	4.02	3.73	4.41	5.19	173.3	188.4	168.3	160.2

[1] Taxable, due or callable after 10 years (prior to 1953—12–15 years).
[2] Standard and Poors.
[3] Moodys Investors Service.

Source: Economic Report, p. 177.

TABLE 5.—*Money supply, rates of deposit turnover, and gross national product*

Year	Money supply (billions of dollars) [1]	Annual rate of deposit turnover [2]	Gross national product (billions of dollars)	Long-term bond yield (corporate Aaa) [3]	Change from 1950 (1950=100.0)			
					Money supply	Annual rate of deposit turnover	Gross national product	Long-term bond yield (corporate Aaa) [3]
				Percent				
1950	115.3	17.2	284.6	2.62	100.0	100.0	100.0	100.0
1951	122.0	18.4	329.0	2.86	105.8	107.0	115.6	109.2
1952	126.5	18.4	347.0	2.96	109.7	107.0	121.9	113.0
1953	128.1	18.9	365.4	3.20	111.1	109.9	128.4	122.1
1954	131.8	19.2	363.1	2.90	114.3	111.6	127.6	110.7
1955	134.6	20.4	397.5	3.06	116.7	118.6	139.7	116.8
1956	136.5	21.8	419.2	3.36	118.4	126.7	147.3	128.2
1957	135.5	23.0	442.8	3.89	117.5	133.7	155.6	148.5
1958	140.8	22.9	444.2	3.79	122.1	133.1	156.1	144.7
1959	141.5	24.5	482.1	4.38	122.7	142.4	169.4	167.2
1960	140.4	25.7	503.2	4.41	121.8	149.4	176.8	168.3

[1] Seasonally adjusted currency outside banks plus demand deposits at all commercial banks, December each year.
[2] Annual rate of turnover of demand deposits except interbank and U.S. Government deposits in 337 reporting centers exclusive of New York, Boston, Philadelphia, Chicago, Detroit, San Francisco, and Los Angeles.
[3] Average for year.

Source: Federal Reserve Bulletin.

U.S. Balance of Payments

From 1951 through 1957, the United States had an average balance of payments deficit of about $1 billion annually, but these deficits neither reduced U.S. gold reserves nor seemed to raise any questions about the soundness of the dollar as an international currency. In fact, U.S. gold holdings rose slightly—from $22.8 to $22.9 billion—between the end of 1950 and the end of 1957, while foreign official and private holders increased their dollar holdings in the same period from $8.4 to about $15 billion.

In 1958 and 1959, due in substantial part to a decline in exports coincident with a rise in imports, the U.S. payments deficit rose to $3.5 and $3.8 billion, respectively. As a result, there was a gold outflow in these years of $2.3 billion in 1958 and $730 million in 1959.

During the first half of 1960, a strong recovery in U.S. exports reduced the U.S. payments deficit to an annual rate of about $2.5 billion. The gold outflow was reduced to a trickle.

U.S. merchandise exports, stimulated by booming conditions in Europe, continued to expand in the second half of 1960, to a near-record annual level of $20 billion. Imports, on the other hand, declined, with the result that the U.S. surplus on merchandise account rose to more than $6 billion by the end of the year 1960. During the year as a whole, receipts for exports of goods and services exceeded payments for imports, including military expenditures abroad, by $3.8 billion, compared with a small deficit for the same items in 1959.

Nevertheless, the overall deficit in the last two quarters of 1960 rose to an annual rate of almost $6 billion. Nearly all of the $1.7 billion gold outflow for the year took place in these months. Except for a single long-term investment transaction of $370 million which occurred toward the end of the year, the increase in the deficit was largely attributable to the flow abroad of short-term funds. For the year 1960, the payments deficit totaled $3.8 billion, whereas the basic deficit is estimated to be not more than $1.5 billion.

The spurt in U.S. short-term investments seems to have had its main source in speculative activities and in differences between economic conditions in the United States and those in Western Europe and Japan. Further, relatively high interest rates prevailing in some Western European countries induced transfers of funds. With the reestablishment of convertibility, international movements of short-term funds became more sensitive to interest rate differentials and an active market for dollars deposited in Europe (the so-called Euro-dollars) developed and attracted U.S. funds in search of returns higher than those available in the United States. At the same time, lower rates here than those prevailing abroad encouraged foreign official and other borrowers to borrow here. There were added to this outflow of funds large speculative movements of "hot money," going principally to Germany, Switzerland, and the United Kingdom. Some of these funds were used to bid up the price of gold in European gold markets, for a brief period, to more than $40 per ounce. Further speculation occurred when it appeared likely that long-term interest rates in Germany and the United Kingdom would be reduced, with an accompanying rise in capital values of securities.

A main problem facing the United States is that of achieving a long-run equilibrium in our balance of payments within a framework of growing international trade and investment. A part of this problem can be met by unilateral action, while other aspects require the action or cooperation of other countries, particularly those whose surpluses are the counterpart of our deficits.

Promising steps of both kinds have been taken. The President, in his balance of payments message of February 6, 1961, declared that all the resources available to the U.S. Government would be used in maintaining the integrity of the dollar. He ruled out restrictionist measures as unnecessary and unwise, and outlined a program which places primary emphasis on expanding exports through vigorous export promotion by American businessmen, assisted by increased Government services to exporters, export credit insurance to U.S. business firms, and a new tourist program. The requirement that foreign aid funds be spent primarily in the United States was retained as a temporary measure, and a reduction in the duty-free U.S. tourist allowance has been proposed.

Short-term interest rates have been maintained at levels higher than would otherwise have been typical for a recession period. An order banning private gold holdings abroad by U.S. citizens was continued. Meanwhile, Germany has agreed to increase its foreign aid and undertake other actions which will help alleviate our balance of payments problems. Both the German and Dutch Governments have revalued their currencies upward by approximately 5 percent, a step which will make prices of U.S. goods more competitive in world markets. Furthermore, substantial reductions in short-term interest rates have been made throughout Western Europe. The combined effect of these actions is yet to be determined, but they do not appear adequate.

An important area which has had insufficient attention is the need for substantial unilateral tariff reductions by the two European preferential trading areas, the Common Market and the EFTA. Such reductions in tariffs and increases in quotas (or better, their removal) are essential to offset the inherent discrimination against outside trade, including that of the United States, as internal tariffs and restrictions of the two areas are reduced. In addition, the Common Market external tariff will result in substantial tariff increases for a significant portion of U.S. exports and, unless adjustments are made, U.S. industrial and agricultural exports may be reduced and undue incentives given for U.S. firms to establish subsidiary plants within the trading area.

U.S. capital investment abroad, particularly in underdeveloped areas, serves national purposes even though it may temporarily add to total U.S. payments. However, U.S. tax laws should not give an undue incentive to American firms to set up subsidiaries in industrialized areas, such as the Common Market. Such subsidiaries may then cut into export markets for our domestic producers and ship into this country goods formerly made in American factories by American labor. The committee favors the recommendations of the President's tax message with respect to taxation of earnings abroad of U.S.

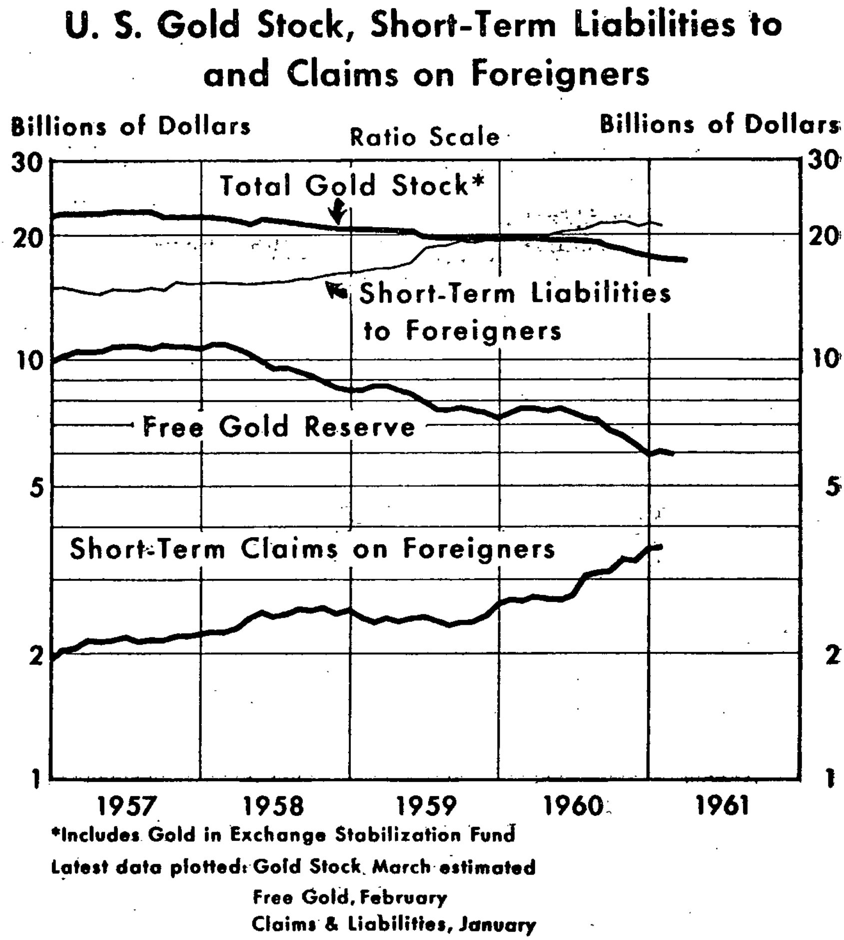
subsidiaries which are not repatriated. Further, we believe that consideration should be given by the industrialized countries, possibly in the OECD, to a code of fair practices which would prevent the luring of industry by tax or loan incentives, where this would cause unemployment in the country of origin. The anti-pirating provision of the distressed areas legislation before the Congress offers a possible analogy.

Another problem, the inadequacy of present international monetary arrangements anchored on the dollar, presents a danger not only of potential drains on U.S. gold reserves, but a danger to the entire system of international reserves and payments which is based in large part on an expansion of U.S. dollar liabilities to the rest of the world. The events of 1960 illustrate what can happen if holders of dollar balances should elect to make large-scale conversions of dollars into gold, even while the U.S. balance of payments situation was steadily improving.

While it is essential that hasty unilateral action by the United States, and makeshift, multilateral adjustments be avoided, in striving to achieve a balance in our payments relations with other countries, it is equally essential that confidence be maintained in the dollar as the key international currency.

This committee has newly established a Subcommittee on International Exchange and Payments to study all of the essential aspects of the world payments problem.

CHART 5



Source: Prepared by Research Department, Federal Reserve Bank of St. Louis.

The Federal Budget

The Federal Government now (April) expects to incur budget deficits of approximately $2.2 billion and $2.8 billion in the fiscal years 1961 and 1962. The previous estimates submitted by President Eisenhower in January 1961 had anticipated surpluses of $79 million and $1.5 billion for the two fiscal years. About half of the differences in the two sets of budget figures results from necessary revisions in estimates of expected revenues and expenditures under existing programs. In addition, some expenditures have been accelerated and some new expenditures have been proposed.

The changes in anticipated total revenues reflect both newer information from tax returns now being filed and changes in economic projections. For the fiscal year 1962, revenues would be lowered by $1.8 billion if no changes were made in the expenditure programs proposed by President Eisenhower. However, with the changes in expenditures proposed by the Kennedy administration, improved economic activity is expected to raise revenue by $900 million from the lower estimate.

Revisions in estimates for existing programs for the fiscal year 1961 include $560 million more for the Department of Defense, $140 million to the Post Office Department in lieu of postal rate increases, $423 million less for farm price supports, and several smaller changes. In the fiscal year 1962, the revised estimate includes $235 million more for present defense programs, $249 million additional for farm price supports, $100 million more for interest on the public debt, and a number of small reductions.

Table 6.—*Estimates of budget totals in the fiscal years 1961 and 1962*

[In millions]

	Revenues	Expenditures	Surplus or deficit (−)
Fiscal year 1961:			
January 1960 estimate	$79,024	$78,945	$79
Reestimate for previously existing programs	−500	401	
New programs and speedup of previously existing programs		1,347	
Current estimates	78,524	80,693	−2,169
Fiscal year 1962:			
January 1960 estimate	82,333	80,865	1,468
Reestimate for previously existing programs	−1,800	417	
New programs and speedup of previously existing programs	900	2,977	
Current estimates	81,433	84,259	−2,826

Administrative actions and new programs which have been recommended include, in fiscal 1961, added defense outlays of $239 million, additional advances from general revenues to unemployment trust funds of $588 million, expanded Commodity Credit Corporation activities amounting to $225 million, and several smaller items.

In fiscal 1962, the new proposed outlays include expansion and acceleration of defense outlays of $655 million, aid to elementary and secondary schools of $500 million, an additional $478 million for agricultural programs, $214 million for housing assistance, and a number of smaller items.

In order to measure fully the fiscal impact of the Federal Government on the economy, trust fund receipts and outlays should be added to the conventional budget figures. Current estimates of trust fund receipts in each of the two fiscal years 1961 and 1962 are higher than the January 1961 estimates because of new administrative actions and program changes recommended by the Kennedy administration. The principal change is the estimated receipt from general funds of $564 million in fiscal 1961 and $446 million in fiscal 1962 for expansion of temporary unemployment compensation. Trust fund expenditures are also now expected to be higher than the January estimates because of changes made by the new administration. The major item is the estimated increase in temporary unemployment compensation payments of $509 million in fiscal 1961 and $453 million in fiscal 1962.

TABLE 7.—*Trust fund totals for the fiscal years 1961 and 1962*

[In millions]

	Receipts	Expenditures
Fiscal year 1961:		
January 1961 estimates	$24,239	$24,102
Reestimate for existing programs		−431
Acceleration and new programs	587	877
Current estimates	24,826	24,548
Fiscal year 1962:		
January 1961 estimates	25,189	25,155
Acceleration and new programs	480	1,528
Current estimates	25,669	26,683

The net result of all these changes in estimated receipts from the public and estimated payments to the public is shown in table 8.

TABLE 8.—*Summary of changes in Federal cash budget for fiscal years 1961 and 1962* [1]

[In millions]

	Fiscal 1961	Fiscal 1962
Total receipts from public:		
January 1961 estimate	$99,005	$103,145
Present estimate	98,504	102,301
Change	501	844
Total payments to public:		
January 1961 estimate	97,931	101,832
Present estimate	99,537	106,330
Change	1,606	4,498
Net surplus or deficit (−):		
January 1961 estimate	1,074	1,313
Present estimate	−1,033	−4,029
Change	2,107	5,342

[1] These figures have been adjusted to take account of intragovernmental transactions, seigniorage, excess of interest accounts over payments, etc.

The automatic adjustments probably have had more significant economic effects than deliberate countercyclical fiscal policies. As personal and corporate incomes fall, taxes on these incomes fall more than proportionately, thereby easing the financial pressures on individuals and businesses. At the same time, Government payments under certain social security programs, notably unemployment compensation, automatically increase as economic conditions worsen. The Council of Economic Advisers and others have estimated that the built-in flexibility of the present tax structure and social security programs offsets between 25 and 30 percent of any change in gross national product. Federal receipts alone are estimated to decline $3.4 billion for every 1-percent increase in the rate of unemployment.

FISCAL POLICIES

Several witnesses expressed concern that the Federal budget has become too restrictive in recent years. They pointed out that the budget now tends to come into balance at excessively high rates of unemployment, and to produce too large a surplus even at moderately full employment—say 4 percent. In recent years the budget has tended to produce smaller and smaller deficits when unemployment is serious. To illustrate, in the first quarter of 1958, when unemployment averaged 6.3 percent, the budget showed a deficit of about $8 billion per year (national income and produce account basis). In contrast, by the fourth quarter of 1960 the deficit was only about $0.6 billion per year while unemployment was about the same, or 6.4 percent.

Several witnesses estimated that in 1960 and 1961 a 4-percent unemployment rate would produce a budget surplus as high as $10 billion or more. They attributed the recent recession, in part, to this fact of an overly restrictive budget. The analysis of recovery prospects summarized earlier in this report suggests that unemployment is likely to remain high throughout 1961 and possibly through 1962. The recent tendency of the budget to come into balance at higher and higher rates of unemployment, suggests a growing divergence between budgetary changes produced automatically by a growing economy and requirements for full employment and stable economic growth. The divergence arises because governmental policies serve not merely the immediate objectives of Government administration—national defense, regulation and promotion of commerce and trade, etc.—but also (*a*) act as automatic stabilizers to counteract fluctuations in economic activity and (*b*) stimulate and/or regulate the economic growth of the Nation as a whole.

Federal fiscal policies make important contributions to economic stability—the expansionary influence of recession-born deficits partially offsets declines in privately produced incomes; and surpluses in prosperity, or inflationary periods, help to curb excessive demand and make possible debt reduction. To a large degree this happens automatically through the effects of changes in employment on revenues and on payments for unemployment compensation. Thus in the current recession, the budget shifted from a cash surplus of about $6 billion per year in the second quarter of 1960 to a cash deficit of about $1 to $2 billion per year in the first quarter of 1961.

But the economy not only fluctuates, it also grows. Each year the labor force increases, the stock of capital rises, and all of our productive resources become more efficient. At sustained full employment, the economy therefore can produce more each year. Economic growth combined with fiscal policies designed to stabilize automatically the economy will produce over time, however, a gradual rise in the ratio of total Federal receipts to the GNP. Reasons for this are outlined in greater detail in a staff memorandum appearing in the appendix of this report. As shown there, at a 1-percent rate of

68180—61——3

growth, for example, in 11 years the average ratio of receipts to GNP would rise by about three-fourths of 1 percent of GNP, or from 17.8 percent to 18.5 percent. At a 5-percent rate of growth, the percentage would rise from 17.8 percent in the beginning year to 20.7 percent in the 11th year. In terms of the Internal Revenue Code of 1954, this would mean a time span ending in 1965.

This rise in the average rate of taxation reflects the facts that the Federal revenue structure exempts a large portion of incomes from tax and has a marginal rate of tax on additions to incomes of 20 to 91 percent for individuals and of 30 and 52 percent for corporations. The average ratio of receipts to GNP at full employment would have been about 17.8 percent at the time the Internal Revenue Code of 1954 was enacted.

Unless, therefore, Government expenditure programs rise faster than national output grows at full employment, thus keeping up with the growth of revenue, the Federal budget under present tax legislation will show a rising surplus at full employment. The surplus will constitute a rapidly rising percentage of GNP. If expenditures were kept at a constant percentage of GNP, the dollar volume of Federal expenditures would rise faster than any current proposals for the years immediately ahead, unless the rate of growth of the economy falls to—or significantly below—the past 50-year average of 3 percent per year.

The inescapable conclusion is that to maintain reasonably full employment the Government regularly must readjust its fiscal and monetary policies to suit the requirements of a growing economy. Otherwise in each recovery period the automatic-stabilizer features of the structure will start putting the brakes on expansion at higher and higher rates of unemployment, as some witnesses asserted happened in 1955–60. Similarly, the budget will begin to offset declines in employment only after they become unreasonably severe, as the budget will be balanced at a higher rate of unemployment in each new recession.

The Government can make the necessary adjustments and adaptations in its fiscal programs by (*a*) periodic downward adjustments of the average yield of the Federal tax structure—a procedure this committee has suggested on other occasions, (*b*) boosting Federal spending programs fast enough to absorb the growing flow of revenues generated by economic growth, or (*c*) following some combination of the two. Whatever form, or combination of forms, the adjustments take, it will be appropriate in the interest of economic growth, sound monetary policy, and avoidance of inflation to consider the need for budget surpluses at full employment. Budget surpluses can help prevent inflation in boom times and reduce the Federal debt.

Along the first—or expenditure—route of adjustment, socially desirable Government activities in addition to those already proposed might be initiated. Much more could be done in the areas of flood control and water and soil conservation, urban renewal, public and private housing, educational assistance, health programs, and other fields. Expanded activity in any of these areas would not only increase employment and aggregate demand in the private sector but also contribute to more rapid long-run growth of our Nation. So long as resources are available which can be employed in these activities, the inflationary dangers from these types of increased Government expenditures would appear to be slight.

Action in the second direction, tax reduction, would influence expansion of production in the private sector of the economy—which also seems desirable. A tax reduction would be reflected in increased demand for the goods and services produced in the private sector. Of course, numerous alternative tax changes might be made to serve the purpose. One change which would have an immediate effect—and probably the most direct effect upon consumer demand—would be a reduction in the withholding rate on wages and salaries and a corresponding change in the first bracket rate on individual income. All taxpayers would be benefited by this type of change and the psychological as well as the economic effects of such a change could multiply rapidly through the economy.

This committee has recommended in the past that discretionary countercyclical tax changes should be used either to ease tax burdens in a recession or to raise tax restraints in an inflationary period. We again recommend that the Congress examine the possibility of using such discretionary tax changes. Whatever discretionary action might be considered to deal with the immediate situation confronting us this year, we must not lose sight of the longer range problem created by the tendency of Federal revenues to rise as a percentage of GNP. It would seem inescapable that consideration be given to a regular, periodic reassessment of the tax structure—for example, every 5 years.

Tax Reform and Incentives to Investment

On April 20, the President sent to the Congress a message on taxation. This message includes recommendations on tax administration, correction of structural defects, tax treatment of foreign income, and tax incentive for modernization and expansion of private capital. We have not yet had the time to analyze the message in detail. Moreover, it is not the function of this committee to assess the specific form of tax legislation, but to appraise the economic impact of tax changes.

It should be noted that the President has also directed the Secretary of the Treasury to prepare a comprehensive tax reform program for consideration in the next session of the Congress. In the past this Committee has frequently indicated its support for tax reform. Hence, we are pleased to see that the administration has made suggestions in this area and that more recommendations can be expected in the future.

The present tax recommendations are not intended as countercyclical measures. No reduction in total revenues is contemplated; no direct stimulus to consumption is provided; and no temporary adjustments are suggested. Hence, the discussion earlier in this report about the possible need for countercyclical tax changes is not affected by the current proposals.

The proposals for changes in tax administration are essentially matters for the tax-writing committees of the Congress. We will make no comment on these features of the recommendations, except to point out that improved administration may improve taxpayer morale and thereby pave the way for more effective tax policy in the future.

The major structural proposal is probably that for repeal of the present dividend credit and exclusion. Such a change is supported primarily on the grounds that dividends represent income to the recipients exactly like any other forms of taxable income. Furthermore, the present law tends to favor higher income taxpayers. Dividends are not subject to "double" taxation to the extent the corporation tax is passed on to the general public by higher prices or other means. In any case, there are many other instances of "double" taxation, for example, consumption taxes and income taxes on the same individuals, which are not recognized in our Federal tax structure.

Restrictions on deductions of expense account items, another proposed structural change, will undoubtedly reduce the amount of our national resources which are now devoted to providing lavish and elaborate entertainment. Moreover, such restrictions should largely eliminate the inclusion of personal expenditures as business expenses, thereby raising both tax revenues and—more importantly—taxpayer morale. This has been a highly publicized area of tax abuse.

Another proposed structural change involves profits on the sale of depreciated assets. Under present law, accelerated depreciation methods permit business taxpayers to reduce rapidly the tax basis of assets by deducting a major portion of an asset's cost against current income in the early years of the asset's life. If such depreciation reduces the book value below market value, and the asset is sold, the profit on the sale is subject only to the capital gains tax, despite the fact that the depreciation deductions were charged against ordinary taxable incomes. The potential tax advantages of accelerated depreciation in the early years of an asset's life would be augmented by the proposed investment tax credit. Therefore, the recommendation is to tax the profits on sales of assets as ordinary income.

The recommended changes in tax treatment of foreign income are intended to obtain greater equity between U.S. investment abroad and investment in our own economy, as well as between personal income earned abroad and at home. Present law tends to encourage overseas investment and to favor our citizens who work in foreign countries. This preferential treatment, it is argued, creates tax inequities and stimulates various tax avoidance devices which artificially reduce domestic income and increase the amount of income allocated to foreign subsidiaries. Elimination of the preferential treatment will presumably provide greater tax equality between domestic firms operating abroad and those operating only domestically, as well as greater tax equality among our own citizens. A major advantage of the proposed changes is that they should improve our balance-of-payments position by reducing the tax stimulus to foreign investment and also increasing the amount of foreign income which is returned to this country. No basic change in present law is recommended for investment and employment in developing economies. The changes apply only to investment and employment in developed economies, where there may be less need for a tax stimulus.

The administration has recommended that the increased revenue from all of the above proposals be offset by granting a tax benefit to business investment. The principal objective of this tax benefit is to stimulate modernization and expansion of plant and equipment. This Committee has frequently indicated the desirability of improving and increasing our private capital, and we believe that expanded private investment is an important national objective. At the same time, however, it is necessary to assess as fully as possible the economic consequences which will stem from the use of the proposed tax-reduction device.

An increase in investment creates an initial increase in the demand for workers. To the extent that investment is stimulated by the proposed change, employment may increase by 500,000 new jobs. On the other hand, it must be recognized that modernization of plant and equipment typically involves the substitution of capital for labor and therefore unemployment. Recognition of this fact should not lead us to discourage modernization, but it does impose a responsibility to adopt measures, such as retraining and relocating aids to assist workers in acquiring new jobs.

Additional investment is desirable because it can raise productivity and lower costs. If these lower costs are translated into lower prices, consumers can be benefited and total demand for goods and services can be expected to increase. However, the principal inducement to expansion of capital must be the prospect of increased demand for products which capital produces. It may be that a tax incentive to a faster rate of investment will have relatively little stimulus to investment unless final consumer demand is stimulated. For example, it appeared that consumer demand failed to keep pace with capacity expansions in the 1955–57 period, as a result of which the Federal Reserve adopted policies to constrain the investment "boom" of that period.

It may be that alternative tax reduction to stimulate consumer demand might, in the long run, do more to induce the desired expansion of capital. In this connection, several witnesses before the committee have pointed out that a substantial amount of excess capacity presently exists. Businesses presumably will have little incentive to make further investments in added capacity so long as existing capital is not being fully utilized, or there is no reasonable expectation that it will be in the near future. In February 1961, total metal production was equal to only about 55 percent of capacity, textiles were at 70 percent, and the paper industry at 82 percent. The McGraw-Hill survey shows general use of manufacturing capacity at about 77 percent.

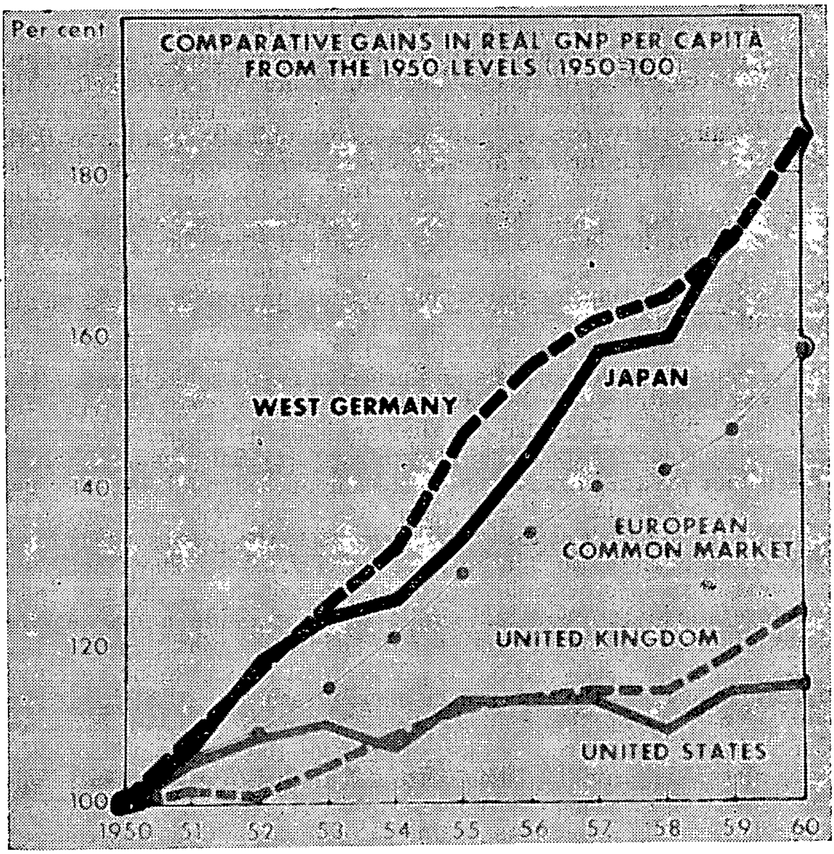
It is important to note, however, that modernization and expansion of capital can lower costs and prices of goods sold abroad. The proposed investment credit could serve to improve our balance-of-payments position by improving the competitive position of domestic firms in world markets. Other countries, especially some of those with whom we are in most vigorous economic competition, now use tax incentives similar to the one that has been proposed.

In connection with countercyclical policies, the proposal may tend to accentuate fluctuations in business activity. Investment normally increases in periods of rapid economic expansion. In these periods, therefore, the investment tax credit would provide a greater tax reduction than it would in recessions. These greater tax reductions would occur precisely when we might wish Government revenues to rise, in order to offset inflationary pressures. Also, in an expansion period, the Federal Reserve System may adopt a policy of high interest rates to curb investment, at the same time that the tax structure is providing the greatest stimulus to investment. This was a matter of concern to many observers of the 1956–57 and 1959–60 periods, after the adoption of accelerated depreciation methods in 1954. Some economists have urged that, since investment is a relatively volatile section of the economy, the appropriate tax procedure would be to vary the tax stimulus to investment inversely to changes in business conditions. An example of this approach would be automatic countercyclical changes in depreciation rates.

In the longer run, it must be emphasized that investment is an essential ingredient of economic growth. Increased consumption does not represent any general increase in our ability to produce goods and services. Increased investment provides the expansion of capital which, along with an expanding work force, will allow us to satisfy our wants more fully in the future. Modernization and expansion of capital are essential not only to maintain consumption, but also to keep abreast in military potential. As a number of witnesses before this committee have pointed out, our growth rate—that is our increase in ability to satisfy all of our wants—has risen at a relatively low rate in recent years compared to a number of other countries.

Chart 6 shows this comparison for several European countries, beginning in 1950 after a substantial amount of the postwar recovery had already occurred.

CHART 6



Source: Federal Reserve Bank of New York, Annual Report 1960.

It is clearly desirable for the Congress to examine a range of alternative tax-reduction proposals at this time. The investment tax credit is one of these alternatives. All of these alteratives will have to be assessed in terms of their relative effects, both on the short-run problems of moving the economy out of the present recession and stimulating long-run growth.

Committee Recommendations

The Nation's responsibilities both at home and in the world setting call for vigorous action to begin promptly closing the gap between our economic performance and our great economic potential. Indeed, the Nation's future in the space age may well depend upon the wisdom and vigor with which we act to achieve full economic recovery and a high rate of economic growth.

Moreover, we point out that our economic gap is cumulative—what we failed to do last year and the year before is reflected in the larger and more stubborn problems confronting us this year, and what we fail to do this year will be reflected in still larger and more stubborn problems next year.

As a first step toward economic recovery and growth, we recommend that the President's program as already discussed be promptly enacted.

Further, we add the following:

MONETARY POLICY

The Employment Act's command that all of the plans, functions, and resources of the Federal Government shall be coordinated and utilized to achieve the high objectives specified in the act is not a command to be taken lightly. We would be remiss, furthermore, if we failed to observe that present coordination of monetary and fiscal policies appears to be less than could be desired. We hope, therefore, that the Federal Reserve authorities will find it possible to cooperate in fuller measure with the administration in trying to achieve substantial increases in employment, production, and purchasing power. To the extent that this effort is not supported by a lower interest rate policy, it must necessarily be supported by correspondingly greater Federal deficits—to achieve a given degree of improvement in economic activity. This will not only mean increased Federal spending, but higher interest costs to the taxpayers per unit of Government services obtained. It may also mean activities of a less desirable sort than would take place if interest rate levels permitted a more rapid rate of private investment in new, more modern business equipment and in housing, as well as increased construction of community facilities by the State and local governments.

In any case, the Nation cannot afford to have the highest policy-making bodies of the Federal Government following conflicting policies, supported though they may be by different assumptions as to what the economic facts are. The Council of Economic Advisers may be wrong, as the monetary authorities seem to think, in believing that substantial improvement in employment, production, and purchasing power can be achieved through conventional monetary and fiscal policies. We do not think, however, that the Council is wrong; and we do not think that the policies currently being followed by the Federal Reserve are appropriate to "combating unemployment arising from a contraction of overall demand."

We recommend, therefore, that for the immediate future the Federal Reserve authorities pursue monetary policies appropriate to reducing unemployment to a rate of 4 percent of the labor force, rather than monetary policies appropriate to eliminating only such unemployment as these authorities conceive to be "nonstructural."

More specifically, we recommend that the Federal Reserve take the steps normally taken by central banks to bring down interest rates, for the purpose of reducing interest rates to the lowest levels that our international balance-of-payments position permits, which means putting particular pressure on long-term interest rates. For this purpose the Federal Reserve should—

(1) supply the member banks with adequate reserves to permit a competitive reduction in interest rates; and [1]

(2) make exchanges of securities in the open market, so as to shift the Federal Reserve's portfolio of some $27 billion of Government securities (now mostly short-term securities) to include substantially more long-term securities.

These steps will—

(*a*) put downward pressure on interest rates, particularly long-term interest rates, and thus spur private investment in business plant and equipment, stimulate housing, and encourage expansion of State and local government improvements;

(*b*) increase consumer demand by restoring purchasing power to the low- and middle-income groups;

(*c*) decrease the staggering carrying charges on the Federal debt; and

(*d*) enable the Treasury to lengthen the average maturity of the debt—even during the period of economic recovery.

(3) take simultaneously, a third appropriate step, which is to lower the Federal Reserve discount rate. It is doubtful that the discount rate has much, if any, direct influence on other interest rates. Yet the discount rate is, as it is sometimes called, a "clear signal," discernible to the financial community, indicating the direction which current monetary policies intend interest rates to take. Accordingly, the discount rate should promptly give a "clear signal" that the Federal Reserve authorities are returning to a less stringent money and interest rate policy and hence reduce the upward pressures arising from market expectations that further increases in interest rates may be in the offing.

In addition to the above recommendations for immediate actions appropriate to a period of high unemployment, we repeat our previous recommendations for appropriate continuing practices. The Federal Reserve authorities should—

(4) bring about long-run increases in the money supply at approximately the same rate at which the gross national product increases. This will avoid pushing up interest rates, over the long run, and, similarly, avoid pushing up the rate of deposit turnover.

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[1] Mr. Patman adds: Agreed, the Federal Reserve must promptly bring interest rates down and allow the money supply to increase. However, it should not increase the money-creating potential of the commercial banks in a way which will permit these banks to acquire more Government securities. The Federal Reserve should itself acquire these securities, if for no other reason than that the interest cost to the taxpayers will be returned to the Federal Treasury, instead of going into bank profits. But, more important, the banks should use the money-creating powers which Congress has delegated to them to help business and consumers in their local communities, which is the only justification for their having these powers. I believe that the failure of the banks to use the money and credit powers for this purpose is a main cause of the deterioration of community life in the towns and rural areas, as well as the overcrowding of the cities and the deterioration of community life there.

(5) purchase Government securities and thus increase bank reserves as a method of increasing the money supply, rather than lowering reserve requirements. This will mean that in the future the private banks will acquire less Government securities, on bank-created money, and that the Federal Reserve will acquire correspondingly more, in which case the interest payments will be returned to the Treasury instead of going into bank profits.

(6) abandon its discredited "bills only" policy finally, and without reservation. A policy of conducting open market operations freely in all maturity ranges of Government securities would restore to monetary policies needed flexibility and hence an effectiveness which has not yet been achieved by what seems only a token suspension of the "bills only" policy made in face of the recent acute, but presumably temporary, balance-of-payments problem.

BALANCE OF PAYMENTS

1. In order to permit the United States to correct its present basic payments imbalance and to assure continued expansion of U.S. exports, we urge that strong and continuing efforts be made to induce the member countries of the Common Market and the European Free Trade Area to liberalize import quotas and to reduce their external tariffs and import taxes on a more-than-reciprocal basis.

2. Improvements are needed in the international mechanisms for payments and liquidity to accommodate a growing volume of trade and an increasing range of fluctuations in external payments, and we urge that improvements be sought.

3. We recommend elimination of the dollar gold reserve requirement, now equal to 25 percent of Federal Reserve notes and deposits. This requirement is irrelevant to both the supply of and the value of the dollar, and removing the requirement will reenforce the President's pledge, made in his state of the Union message, that the full strength of all our reserves stands behind the value of the dollar for use if needed.

FISCAL POLICIES AND DEBT MANAGEMENT

We recommend that the Treasury:

Review the tax structure with a view to recommending a downward revision of taxes—not a temporary "tax cut"—and that it make further periodic reviews for the same purpose, say, every 5 years.

In addition, we repeat our recommendations of last year that the Treasury—

(*a*) take vigorous steps to achieve a broader and more competitive market for Federal securities and work toward the adoption of the auction method of marketing all Federal securities; and

(*b*) establish as soon as practicable, a regular, predetermined schedule for refunding maturing securities.

LOCAL PUBLIC CAPITAL IMPROVEMENTS

We recommend that legislation be enacted:

To provide, for a limited time, for Federal grants on a matching basis to local communities (other than those with no serious unemployment problem) for immediately needed improvements—such as police stations, fire stations, streets, parks, water and sewerage systems. The program should be confined to projects that can be started quickly, say within 90 days, and finished quickly, say within 12 months. Such a program would help reduce unemployment and spur local public improvements needed now but postponed, or slowed, because of limitations on local financial resources.

CONTINUING IMPROVEMENTS IN MEETING NATIONAL NEEDS

We recommend that prompt consideration be given to:

1. *Retraining and other aids to displaced workers.*—While rapid technological progress increases the Nation's productive capabilities and standard of living, it does cause large-scale displacement of workers whose productive efforts and creative abilities are lost to the Nation if not trained for the jobs to be done in an advancing society. Congress and the administration ought to develop immediately a program for large-scale cooperative efforts for retraining workers, and where necessary relocating them. We repeat our previous recommendation for—

(*a*) A permanent liberalization of unemployment insurance to replace the present temporary plan;

(*b*) Coordination of the activities of the State employment agencies 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." (1960 Joint Economic Report, p. 19.)

In addition consideration should be given to—

(*c*) A new kind of "GI bill" for retraining and education, not limited to war veterans, but available to all employees who are, or are about to be, casualties of the advancing business technology.

(*d*) Incentives for business firms to establish training schools to retrain workers who are about to be displaced because of new business methods and processes. The business firm itself usually has the best advance knowledge of a change in its production techniques and what its new labor requirements will be.

2. *Further aids to education.*—Alternatives include, for example, expanded national defense education scholarships, subsidies to institutions of higher learning, and tax deductions to families to reflect personal educational investments. Education represents one of the major investments which can be made to provide long-run growth. [2]

3. *Development of retirement and recreational areas.*—Retired people, as well as the frequently unemployed, are overcrowding our cities, largely because of the better social services the municipalities provide, but also because of restrictions against movement imposed by the old-age assistance programs. Impossible burdens on the municipalities are building up, pleasant rural areas and small towns offering lower living costs are being deserted, and older people are frequently living in not the most suitable city surroundings. Consideration should be given to a cooperative Federal, State, and local program to develop retirement and recreation areas in pleasant, uncrowded parts

[2] Senator Douglas, Senator Proxmire, Congressman Reuss: We urge great caution in using the tax deduction or tax credit method for financing education or other worthy causes. In general, such deductions go in large proportion to high-income groups and to those who list deductions rather than to those who file the short forms. It would be better to close existing loopholes, make the tax system fairer, lower tax rates, and thus spread the burden for schools and other needs in a more just way.

of the country and to ease the restrictions against migration of older people.

4. *More flexible private pension systems.*—Too many workers in the executive brackets are unable to move to new jobs, or obtain a job when unemployed, after reaching the age of 40 or 45—by reason of the restrictive nature of the corporate pension systems. Consideration should be given to removing the tax deduction given for pension contributions except in those cases where the pension funds are fully vested. This would increase worker mobility and restore job opportunities to the more mature workers who have lost their jobs.

5. *A capital bank for municipal securities.*—Despite the tax-exempt status of securities of the State and local governments, interest costs on these securities are high and thus restrict the building of needed community facilities. A Federal agency or bank might be created to assure an orderly organized market for these securities and thus reduce the interest burden on State and local governments.

6. *A Federal capital budget.*—This long overdue development would not only permit better management and better public understanding of the Federal Government's fiscal affairs; it would most likely lead to actions to take important capital items out of the annual cash budget and to financing them by private means. A specific matter for consideration now is a central agency, or bank, to finance capital equipment now being purchased, and overhauled, by the military agencies for use by defense contractors.

IMPROVING COMPETITION

Finally, we would like, as a minimum, to see a program for accelerated enforcement of the antitrust laws and budgets for the antitrust enforcement agencies which are more realistically related to the magnitude of the tasks these agencies have been given to perform. We believe that dollars spent on effective antitrust are the least costly dollars of all, because dollars spent for this purpose will, in the long run, have the greatest multiplier effect of all in stimulating private economic activity, promoting self-adjustments in the economy, and relieving strains on the budgets of Federal, State, and local governments.

The committee adopted a resolution, on March 14, 1961, suggesting that the President order the publication of all bid lots received by Federal agencies under the competitive bid procedure, whenever any two or more of the bidders submit identical bids. The President has now issued such an order, and we hope that this will be implemented and made a permanent feature of the Federal Government by enactment of such a bill as H.R. 4570, introduced by the committee chairman. It is believed that public information and publicity concerning the names of the bidders and other intimate details of the bids, such as the specific products for which bids are made and the prices asked, will have a wholesome effect. We understand that a reporting program such as we have suggested is being developed. We will welcome this, and we will also welcome additional specific proposals for bringing about more effective competition.

In a related field, we heartily approve the President's appointment of a labor-management advisory committee, and will welcome the committee recommendations on price and wage policies that will combat inflation.

We do not underestimate the part which inadequate competition plays in creating the problems the Nation faces in grappling with the inflationary bias in our economy and achieving high rates of employment, production, and economic growth. Nor do we underestimate the fact that private initiative and free, competitive enterprise are and must continue to be the primary and predominant sources of our Nation's vitality and strength.

NOTE.—Senator Fulbright, because of the extraordinary press of other congressional duties, was unable to participate in the hearings or committee meetings on this report. For that reason, the findings and conclusions herein set forth are neither approved nor disapproved by him.

Committee and Subcommittee Activities in the Past Year

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy.

During January and February of 1960 the committee held hearings and prepared its report on the 1960 Economic Report of the President. That report, which was transmitted to the Congress on February 29, announced a number of studies to be undertaken by subcommittees and by the committee staff during the year. The activities of the subcommittees and the committee staff for the period March 1960–April 1961 are summarized below. Except for the current hearings and report on the 1961 Economic Report of the President, the only hearings held by the full committee were on December 7 and 8, 1960, on the "Current Economic Situation and Short-Run Outlook." Experts from Government, industry, labor and the universities presented analyses of the various strengths and weaknesses in the economic situation and short-run outlook at that time.

SUBCOMMITTEE ON AUTOMATION AND ENERGY RESOURCES

The Subcommittee on Automation and Energy Resources was composed of Representative Wright Patman, chairman; Representatives Henry S. Reuss, Clarence E. Kilburn, and William B. Widnall; and Senators Joseph C. O'Mahoney, John F. Kennedy, and John Marshall Butler.

In 1955 a Subcommittee on Economic Stabilization heard 35 witnesses on the subject, "Automation and Technological Change," and in the intervening years similar subcommittees have periodically inquired into the changing impact of technological change and automation on longrun employment and investment levels. In its 1960 Economic Report (S. Rept. No. 1152, 86th Cong., 2d sess.), the joint committee requested the Subcommittee on Automation and Energy Resources to bring up to date the information supplied in the 1955 hearings and in the subsequent inquiries. The staff, acting under the guidance of the chairman, wrote to the same experts who had testified at the previous hearings, requesting their views on the problems of automation and technological change in the light of developments during the interim. The statements of these labor leaders, businessmen, and engineering experts were published as a committee print, "New Views on Automation," in October.

The Subcommittee on Automation and Energy Resources was also requested by the joint committee to continue its studies of energy resources with an examination of the relationship of Government to energy resources. In carrying out its assignment, the subcommittee sent a list of questions to the heads of Federal agencies having regulatory or related responsibilities in connection with the distribution or development of energy resources. Inquiries were also sent to selected

State agencies of those States which are large producers, have large potential reserves of fuel or fuel power sources, and are large consumers of power. The materials submitted by the Federal and State agencies were published as a committee print, "Energy Resources and Government," in December.

SUBCOMMITTEE ON ECONOMIC STATISTICS

The Subcommittee on Economic Statistics was composed of Representative Richard Bolling, chairman; Representatives Hale Boggs, Frank M. Coffin, and Thomas B. Curtis; and Senators John Sparkman, J. W. Fulbright, Prescott Bush, and Jacob K. Javits.

In response to the subcommittee's request, made during the subcommittee's 1959 hearings on "Comparisons of the United States and Soviet Economies," Director Allen W. Dulles of the Central Intelligence Agency submitted a statement on "Costs and Benefits to the Soviet Union of its Bloc and Pact System: Comparisons with the Western Alliance System." This study was released as a committee print in July.

In accordance with instructions of the full committee, the subcommittee arranged for a 1960 revision of the "Historical and Descriptive Supplement to Economic Indicators," which was prepared during the year and released in December.

The staff, under the direction of the subcommittee and with the assistance of the Bureau of the Budget and the President's Council of Economic Advisers, conducted one of its periodic reviews of the committee's monthly publication, "Economic Indicators."

Improvements made in the statistical series in the monthly "Economic Indicators" and the "Supplement" include new tables on balance of payments and on unemployment insurance programs; more data than shown previously on average weekly hours of work, construction, and sales and inventories in retail trade and in manufacturing; and a better presentation of data on prices. These changes were incorporated in the November 1960, and subsequent issues of the Indicators.

The Subcommittee on Economic Statistics also began hearings January 24, 1961, on "Government Price Statistics." The focus of these hearings is the report entitled "The Price Statistics of the Federal Government: Review, Appraisal, and Recommendations" submitted to the Bureau of the Budget by the Price Statistics Review Committee of the National Bureau of Economic Research. The subcommittee has scheduled further hearings on this subject on May 1–5.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The Subcommittee on Defense Procurement was composed of Senator Paul H. Douglas chairman; Senators John Sparkman, Joseph C. O'Mahoney, and Jacob K. Javits; and Representatives Wright Patman, Richard Bolling, Thomas B. Curtis, and William B. Widnall.

Hearings on "The Impact of Defense Procurement" were held January 28–30, and the subcommittee issued a report on "Economic Aspects of Military Procurement and Supply" in October.

In connection with the subcommittee's hearings the staff prepared a study of "Background Material on Economic Aspects of Military Procurement and Supply," which was issued as a committee print in February 1960.

STAFF STUDIES

A study of the dealer market for Federal Government securities

In connection with the committee's hearings conducted as part of the study of employment, growth, and price levels (pt. 6B, "The Government's Management of Its Monetary, Fiscal and Debt Operations," August 5, 6, 7, 1959), the 17 firms dealing in Federal Government securities were asked to submit detailed information on a number of aspects of their business over the last 10 years.

"A Study of the Dealer Market for Federal Government Securities," which was issued as a committee print in January 1961, is an analysis based on a series of financial reports which the 17 dealers in the Government securities market voluntarily submitted at the request of the Joint Economic Committee.

Economic policies for agriculture in the 1960's, implications of four selected alternatives

On the full committee's instruction to the staff, a series of papers were prepared by leading agricultural economists presenting a review of the current status of agriculture and four alternative economic policies for agriculture in the 1960's. The papers were published as a committee print in November.

Subsidy and subsidylike programs of the U.S. Government

On direction of the full committee, the staff, with the assistance of the Legislative Reference Service of the Library of Congress, prepared materials on subsidy and subsidylike programs of the U.S. Government. This study, which was issued as a committee print in December, is designed primarily to bring together into compact form a checklist and, where possible, provide some measure of the magnitude of the assistance by the Federal Government to private enterprise deemed advantageous to the public good. The study does not attempt to appraise the merits of the various programs but simply provides a basis for more detailed studies of the individual programs should this prove desirable.

Economic programs for labor surplus areas in selected countries of Western Europe

This report was assembled by the staff of the Joint Economic Committee with the assistance of the Office of Area Development of the Department of Commerce and the Legislative Reference Service of the Library of Congress. It presents a summary of the results of the conferences that were held and materials obtained during the summer and fall in eight European countries on their programs for aiding areas with surplus labor.

Index, hearings on employment, growth and price levels

The staff prepared a consolidated index of the 13 volumes of the hearings and tables of contents of the study papers and reports issued during the Joint Economic Committee's study of "Employment,

68180—61——4

Growth and Price Levels," conducted in 1959 pursuant to Senate Concurrent Resolution 13, 86th Congress, 1st session.

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part during 1960: Economic workshop, West Virginia University, annual sessions of the National Tax Association, Investment Bankers Association, Mortgage Bankers Association of America, the National Bureau of Economic Research, National Industrial Conference Board, Federal Statistics Users' Conference, American Economic Association, American Statistical Association, the National Association of State Tax Administrators, American Society for Public Administration, and the National Planning Association; conferences with groups of foreign economists brought here under the sponsorship of the State Department and the International Cooperation Administration; seminars of the Industrial College of the Armed Forces and the conference program of the Brookings Institution; meetings of local chapters of the American Statistical Association and other meetings of business groups, civic organizations, and university classes.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

In the period March 1960 through March 1961 the Joint Economic Committee and its subcommittees issued 14 publications. Over 260,000 copies of current and previous committee publications were distributed during the year to fill individual requests. Committee publications are also on sale by the Superintendent of Documents. In the past year, individual copy sales and quantity orders of committee publications, current and past, exceeded $44,000. This figure does not include the 8,800 paid subscriptions for the monthly publication Economic Indicators. A checklist of committee publications will be found at the back of this report.

Committee and Subcommittee Plans for the Coming Year [1]

FULL COMMITTEE

Study of the dealer market for Federal Government securities

The committee's analysis last year of questionnaires submitted by 17 dealers in Federal Government securities has laid the foundation for further study and hearings in regard to that market. The study raised a number of questions about the way the market operates and how to improve it from the standpoint of the dealers, the Federal Reserve System and the Treasury. The issues involve not only the Government's monetary and debt management policies but also appear to have important implications for the process of savings and investment which are crucial to the stability and growth of the economy. The committee believes it would be useful to hear from the dealers, other participants in the market, and officials in the Federal Reserve System and the Treasury.

Review of annual report of the Federal Reserve System

The committee will hold a brief set of hearings to review actions of the Federal Reserve Board and the Open Market Committee as reported in the Board's annual report to see, in retrospect, the relationship of these actions to economic growth and stability.

Variability of private investment in plant and equipment

In 1950 a subcommittee of this committee undertook to hold hearings on the volume and stability of private investment. The subcommittee limited its investigation, because of time, to examining the supply of funds but listed nearly a hundred questions which needed study. These questions will be reviewed and the most significant selected for detailed analysis.

Inventory movements, accumulation, and liquidation

Inventory fluctuation and behavior will be studied to try to determine the extent to which changes in them are causes of instability and to what extent they are in themselves affected by other forces inherent in the business cycle. The committee will be concerned with such areas as merchandising and production planning to see what influences and what can be done to regularize purchasing so that characteristically wide swings in the direction of inventory adjustments can be minimized.

SUBCOMMITTEE ON ECONOMIC STATISTICS

Government price statistics

This subcommittee already has underway an examination of a report on Government price statistics which was prepared for the Bureau of the Budget by the National Bureau of Economic Research. Hearings are scheduled for May 1–5, 1961.

[1] Three new members of the Joint Economic Committee were appointed to fill vacancies at the beginning of the 87th Cong. Senator William Proxmire and Senator Claiborne Pell were appointed to fill vacancies in the Senate Democratic membership and Representative Martha W. Griffiths was appointed to complete the Democratic membership from the House.

Study of unemployment

This study will examine the cyclical, secular, and structural character of unemployment and the adequacy of our unemployment statistics for such analysis.

Productivity, prices, and incomes

It is planned to update and extend the committee's 1957 study in this area, including unit cost indexes, unit value added indexes, contributions to price change, etc.

The Federal budget as an economic document

This study will try to determine how the President's budget may be made a more useful document for analysis of its impact upon the economy. Questions of the kind of obligations, orders, and expenditures statistics needed will be examined, as well as liabilities versus cash flows, prices of Government purchases of goods and services and seasonal adjustment.

Members of the Subcommittee on Economic Statistics are Senator William Proxmire, chairman; Senators Paul H. Douglas and J. W. Fulbright; and Representatives Richard Bolling, Thomas B. Curtis, and William B. Widnall.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

The subcommittee will conduct studies and hold hearings on such subjects as trade, trade agreements, international investments, U.S. imports and exports, and U.S. foreign aid.

Members of the Subcommittee on Foreign Economic Policy are Representative Hale Boggs, chairman; Representatives Henry S. Reuss and Thomas B. Curtis; and Senators John Sparkman, J. W. Fulbright, Claiborne Pell, Prescott Bush, and Jacob K. Javits.

SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

The subcommittee will conduct a comprehensive study of recent imbalances in international payments, measures to correct them, and proposals for safeguarding the dollar through improving present international monetary mechanisms. The subcommittee will hold hearings in June. U.S. Government officials, leading specialists from outside the United States, economists and representatives of U.S. industry, private banking, and labor will be invited to participate.

Members of the Subcommittee on International Exchange and Payments are Representative Henry S. Reuss, chairman; and Representative Hale Boggs; and Senators Paul H. Douglas, William Proxmire, Claiborne Pell, Prescott Bush, John Marshall Butler, and Jacob K. Javits.

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

This subcommittee is asked to examine the economic inter-relationships between Latin America and the United States with particular reference to long-term trade potentials, mutually advantageous development of economic resources, and economic stabilization mechanisms. The subcommittee plans to hold on-the-spot discussions in Latin America with key government officials, labor and business leaders, and experts from academic life, as in the committee's 1958 study of "Economic Policy in Western Europe."

Members of the Subcommittee on Inter-American Economic Relationships are Senator John Sparkman, chairman; and Senator John Marshall Butler; and Representatives Richard Bolling, Hale Boggs, Martha W. Griffiths, and Clarence K. Kilburn.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The subcommittee will carry out the committee's continued interest in this field. The program will be announced as it is developed during the year.

Members of the Subcommittee on Defense Procurement are Senator Paul H. Douglas, chairman; Senators John Sparkman, William Proxmire, and Jacob K. Javits; and Representatives Wright Patman, Martha W. Griffiths, Thomas B. Curtis, and William B. Widnall.

SUBCOMMITTEE ON ECONOMIC STABILIZATION, AUTOMATION, AND ENERGY RESOURCES

After preliminary staff study, hearings will be held to determine which industries are likely to adopt new technologies in the near future and to determine also the kinds, volumes, and locations of probable labor displacement. It is hoped that the information thus assembled will lead to proposals for minimizing, by anticipatory measure, employee dislocations.

As a separate item, the subcommittee will study and hold hearings on the effect of the private pension systems on employee mobility, particularly as to scientific, technical, and other professional skills, and on the extent to which private pension systems, as presently arranged, militate against the reemployment of seasoned and older employees who have been separated from their jobs.

Members of the Subcommittee on Economic Stabilization, Automation, and Energy Resources are Representative Wright Patman, chairman; Representatives Henry S. Reuss, Martha W. Griffiths, Clarence E. Kilburn, and William B. Widnall; and Senators William Proxmire, Claiborne Pell, and John Marshall Butler.

ADDITIONAL STUDIES

The studies of "Variability of Private Investment in Plant and Equipment" and "Inventory Movements, Accumulation and Liquidation" listed above under the full committee are part of a series of studies of some of the most volatile or troublesome elements of the economy as a followup to the study of "Employment, Growth and Price Levels."

Other elements of variability which need to be studied include (1) variability of private investment in building, especially housing; (2) consumer behavior as a factor in stability; (3) the importance of the magnitude and variations in the export market; and (4) planned and unplanned effects of changes in government demand. The export market will be studied by the International Exchange and Payments Subcommittee in connection with their analysis of the balance of payments. One aspect of the problem of interpreting the effects of Government demand, the recasting of the budget estimates to make them better portray their influence and impact upon economic activity, will be examined as part of the program of the Subcommittee on Economic Statistics. Elements (1) and (2), building and consumer behavior, will be considered if time and funds permit.

INDIVIDUAL VIEWS OF SENATOR WILLIAM PROXMIRE

I dissent from the views of the committee majority with reluctance. I do so for these reasons:

(1) The report underestimates the two big economic problems facing America. It fails to recognize the enormity of the unemployment dilemma in its full long-term significance. It does not face up to the full implications of America's feeble growth record as compared to other industrial countries.

(2) The report assumes that tools are readily available to solve these problems, that the country only needs action—not answers. The real problem is that neither the administration nor this report has even come close to providing the answer to our massive unemployment or our perplexing growth problem. Before we act, we must know what to do. Neither this committee nor the administration knows.

Once we acknowledge this, then we can begin where we should begin—that is to search vigorously for answers.

FUTILITY OF "BOOTSTRAP HOISTING"

I vigorously disagree with the committee report's assertion that:

> We have no doubt, either, that if both monetary and fiscal policies are properly used the economy can be brought to a rapid recovery.

This is a flat assertion wholly unsupported by American economic experience. The fondest illusion of modern economic policy in a free society is that this kind of "bootstrap hoisting" will do the job. The record indicates it would leave us where most "bootstrap hoisting" does—standing still.

AMERICAN ECONOMIC EXPERIENCE

There is not a single comparable instance when fiscal and monetary policy can be shown to have achieved rapid recovery. American experience in the great depression, when deficit spending and falling interest rates had a 10-year opportunity, was a dramatic example of its failure. Fiscal and monetary policy didn't do the job then, and no one is suggesting that the present administration contemplates running deficits in relation to our gross national product that would be comparable with that period.

Expressed as a percentage of gross national product, the Federal Government consistently ran heavy deficits for 10 consecutive years, from 1931 through 1940. These deficits averaged 4 percent of gross national product. But unemployment was not reduced below 14 percent—twice the present level—during the entire 10-year period.

Comparable Federal deficits today with our $500 billion economy would be a mammoth $20 billion per year, a gigantic $200 billions in 10 years.

Fiscal policy did not work then. How can we be so sure it will work now?

Also, the capacity of reduced interest rates in connection with heavy budget deficits to stimulate the economy was tested in that period. Indeed, interest rates steadily dropped from 3.7 percent on long-term bonds in 1932 (close to the present 3.8 percent) to 2.3 percent in 1940. But unemployment continued at depression levels until the outset of World War II.

What is there in this grim picture to warrant the blithe report assertion that—

> if both monetary and fiscal policies are properly used the economy can be brought to a rapid recovery?

Of course, it will be argued that with budget expenditures varying between 8 to 10 percent of the gross national product in the thirties, the governmental impact was far less than today when Federal expenditures are about 16 percent of gross national product. The answer to this platitude is that the critical relationship in fiscal policy is the ratio of the budget deficit or surplus to the gross national product. And, on this score, the Government would have to run deficits for 10 years averaging $20 billion a year to have an impact on the present economy comparable to the deficits of the thirties.

That impact was inadequate to solve unemployment in the last American economic experience unaffected by the immediate aftermath of war.

If the experience of the sixties with fiscal and monetary policy should follow that of the thirties, the national debt could be increased by a mammoth $200 billion in the next 10 years without solving the unemployment problem.

This is why the committee should warn the Congress that fiscal and monetary policy may not be enough, and that other policies to expand demand should be vigorously explored.

HARMFUL CONSEQUENCE OF POLICY

I assert this vigorous disagreement for two reasons:

(1) Reliance on the assertion by the Joint Economic Committee that fiscal and monetary policy could solve our unemployment problem might persuade Congress to try them. Such a course might lead to an enormous increase in the national debt, and persuade the Government to dig itself into a deeper and deeper fiscal hole.

(2) I think it is far more likely, however, that Congress will reject this assertion by the Joint Economic Committee. This policy is simply not going to be sold to the Congress or the people of the United States in a time of relative prosperity in spite of our serious unemployment problem. When the country is at peace and incomes are at a near record high, prudent men will not adopt a policy that argues for additional deficits as good things in themselves.

The report asks Congress to adopt a sophisticated, novel, and undemonstrated theory—i.e., forget any attempt to balance the budget. Instead, calculate a point where inflationary and deflationary forces balance and adjust your spending and taxing so the budget will be in balance at that figure.

Monetary policy offers far more short-term promise. But it is much too weak a reed even when combined with fiscal policy to pull our economy to the "rapid recovery" promised by the report.

ALTERNATIVES TO FISCAL AND MONETARY POLICY

A healthy and realistic recognition of the limitations of fiscal and monetary policy is the first prerequisite to the kind of inquiry our Government should undertake on how we do solve this immensely serious problem of idle men and resources without interference with economic freedom.

The most promising alternative is the strengthening of the automatic stabilizers as contrasted with the conscious management of fiscal policy. The most significant statement in our hearings was the assertion of the Council of Economic Advisers that the built-in flexibility of the present tax structure and social security programs offsets between 25 and 30 percent of any change in gross national product.

MORE SPENDING VERSUS LOWER TAXES

But the majority report fails to present a balanced picture. It argues vigorously for higher spending or lower taxes or both so that the deficit will increase at a lower level of unemployment and will continue to stimulate the economy until unemployment drops to say 4 percent—i.e., gross national product increases by a fat $50 billions.

The report, however, fails to consider the Federal debt burden if unemployment simply doesn't drop to this level.

NO PREFERENCE FOR PRIVATE USE OF RESOURCES

The report reflects the attitude expressed to the committee during our hearings by Budget Director David Bell when he said:

> The relevant criterion in determining the desirability of a proposed use of resources for a public purpose is its value to the country in comparison to the value of using the same resources for other purposes, public or private.

This statement and the whole tenor of the report imply that there should not be a presumption, and a strong presumption, on the side of using resources for private rather than public purposes.

In a free society faced with the inevitable tendency for government to grow and extend, the individual is sure to be dwarfed by the mammoth size of the Federal Government unless there is such a presumption.

The report concludes—

> * * * private initiative and free, competitive enterprise are and must continue to be the primary and predominant sources of our Nation's vitality and strength.

This excellent assertion is meaningless, however, unless private rather than public enterprise is given consistent preference.

DISSENT FROM COMMUNITY FACILITIES RECOMMENDATIONS

What I have said immediately above is why I dissent from the committee's recommendation of a grant program for such local purposes as "police and fire stations, streets and parks."

The necessities of national defense, interest on the huge national debt and such necessarily national programs as the farm dilemma and care of veterans have enormously swollen the size and cost of the Federal Government. But, these are national problems bearing a national responsibility that can be met only by the Federal Government.

It is true that CWA and WPA engaged in local projects at the depth of the great depression with great benefit to the idle men who were taken off a dole and provided with useful, constructive work.

Today our unmet need for national defense, including civil defense, in an increasingly perilous world, is immense.

The responsible and expert Gaither and Rockefeller reports both call for a far greater national defense effort than we are now making. If the Federal Government is to step up its participation in our national economy it should be in the field that is peculiarly its responsibility—providing a surer and safer national defense.

CLOUDED CRYSTAL BALL

What is happening to the economy in the current quarter is an excellent example of the harmful consequences of Government economic policy based on short-run prediction.

The committee warmly praises the action of the administration in attempting to stimulate the economy as soon as it took office by speeding up Government spending. Hearings before the committee revealed, however, that almost none of this speedup was effective in the first quarter of calendar 1961 when unemployment and idle plant capacity reached their peak. Testimony also suggested that virtually the full impact of this speedup in Federal spending will be in the current quarter. Furthermore, it will coincide with the exact period during which the Government will already have by far the greatest expansionary impact on the economy in many years.

Accordingly, we can expect a sharp increase in demand during the current quarter but a serious letdown in the impact of the Government on the economy after July 1.

Here is a case study in economic policy gone wrong:

(1) Virtually the full impact of the $600 million increase in Federal spending resulting from President Kennedy's order to agencies to speed up their spending to help put men back to work will be in the current quarter. This will be borrowed largely from periods later in the current calendar year.

(2) The real sledge-hammer impact of the Government on the economy is in defense procurement. Obligations for procurement, research and development, testing and evaluation, and construction are expected, according to testimony by Defense Department Comptroller Charles Hitch, to soar from $5 billion in the past quarter to $8½ billion in the current quarter. In the coming fiscal year, beginning July 1, they will drop by a billion dollars.

Mr. Hitch reported to the committee for the Defense Department that the current fiscal year just ending would provide the greatest obligation to spend by Defense since the end of World War II with the single exception of 1952, the peak year of the Korean war buildup. He further stated that it would be higher than in fiscal 1962.

(3) A few weeks ago the Defense Department ended the requirement for a 20 percent set-aside by defense contractors and immediately began a process of contract settlement that will greatly increase private cash income primarily in the current quarter.

All of this adds up to the fact that the Government is heavily stimulating business in the current quarter, but that the sure drop in this spending beginning July 1 will act as a contrasting brake on the economy at a time when it is now certain there will still be heavy unemployment and idle plant capacity.

PRESIDENT'S TAX RECOMMENDATIONS

I would emphasize far more strongly than does the report the unfortunate fact that the President's proposal for a tax credit to provide incentives for business investment would tend to deepen cyclical swings.

The thrust of the committee's report is to promote for Government a more aggressive role in ironing out the business cycle. Spending, taxing, and interest rate policies have been primarily evaluated in the report in terms of their contribution to expanding the economy in times of recession and contracting it in times of inflation.

The President's tax credit proposal would have a precisely contrary impact. Business would be offered a superincentive to expand in prosperous times when its profits and taxes are rising. It would have a sharply reduced incentive for investment in recession periods when profits and taxes are low.

The President's tax credit proposal, therefore, would tend to aggravate inflation in boom times and subsequently exaggerate unemployment in bad times.

In spite of this significant weakness, the President's proposals do have the great merit of providing: (1) encouragement for long-range growth; (2) an effective reduction in the excessively high corporation income tax; (3) no loss of revenue because of balancing tax recovery proposals; (4) greater equity in the tax structure because special tax advantages to some forms of income would be reduced or eliminated.

I protest the absence in the President's recommendations for closing tax loopholes of any reference to that most notorious and unjustified of all tax loopholes, the 27½ percent depletion allowance for oil. The failure to recommend that this be reduced to the 15 percent level of most other minerals passes up some $400 million of additional Federal revenues and leaves the oil industry with its income taxed at only about one-third the taxes imposed on the rest of American industry.

AUTOMATION-UNEMPLOYMENT DILEMMA

Our unemployment problem is caused by the very productivity and efficiency that must be the basis of the victory for freedom in the world.

America's automated farms and factories have brought us the richest material blessings in the history of mankind. They will also predictably contribute to the waste of unemployment in our free society, unless we master the problems they pose.

The American farm economy is the supreme example. Our farmers have increased their efficiency three times as rapidly as the rest of America. Nowhere is this country's economic superiority to the Soviet Union more pronounced than in the great productivity of our electrified, power-driven, privately owned family farm.

And yet, this very automated efficiency is contributing vastly to unemployment by driving farmers off the farm where their work is not needed into the cities where automated factory unemployment is already large and growing. Here is the most dramatic illustration of our dilemma. Where our technological advance has been our greatest, our unemployment problem is the most acute.

The answer is not to stop or even slow down technological advance. We look over our shoulder at the onrushing surge of the Communist economic tyrannies of China and Russia with their forced economic growth. And we know that American economic superiority is what makes our Nation the arsenal of freedom.

Indeed, efficiency and productivity must be fostered and speeded.

This, then, is the tough economic dilemma which this report and the administration have not frankly faced:

(1) A heavy and voluminous increase in the American work force is certain.

(2) Automated unemployment on the farm and in the factory is sure to increase.

(3) Our national obligation for world freedom imposes on the Federal Government the policy of encouraging the very productivity and efficiency that is causing unemployment.

The administration and this committee must come up with far more precise and promising answers to this dilemma than the vague proposals for retraining, research, and education proposed to date.

CONCLUSION

My strong dissent from the majority of the committee should not be misinterpreted:

(1) I have the deepest regard for the remarkable ability and judgment of the majority who have joined in this report.

(2) Although I am highly critical in this dissent of the administration's policies, I recognize a unique excellence in the appointments the President has made to the highest positions of economic policy in his administration. I also admire the zest and determination with which the administration has tackled the No. 1 problem of our economy: getting the economy moving. Growth and a massive increase in employment have been the administration's proper objectives.

But the administration and this report make two serious errors:

(1) They have grossly underestimated the dimensions of the problem.

(2) They have overestimated the ability of the Government to solve it.

These errors if they persist will prevent those responsible for economic policy in our Federal Government from recognizing that the big fact is we have not come up with any real answers to our very large unemployment that grows with each swing of the business cycle. A frank acknowledgment that we don't have the answer is an essential first step toward solving the problem.

Also, we have not faced up to the enormously tough problem of how we can achieve an economic growth comparable to that of the other leading free industrial countries of the world, or our chief adversary, Russia. The terrible fact is that America is, and has been for several years now, at the very bottom of the pole in economic growth.

There is nothing either in the administration's program or in this report to indicate that this big fact has even been recognized.

Faith in our free economic system is essential. The administration, and I am sure every member of the committee, has it.

But that faith should not persuade us—as it has—to say that these massive problems can be solved simply by the kind of prescription the administration has offered and the committee has generally accepted.

We should have the courage to face up to the problems of growth and unemployment in all their immensity. We should admit that we haven't the answers—and not even much of a clue to the answers—and then seek as aggressively and vigorously as we can to develop some.

MINORITY VIEWS

The Employment Act of 1946 directs that "The President shall transmit to the Congress not later than January 20 each year an economic report * * *" containing a program to carry out the policy declarations of the act. This President Eisenhower did on January 18, 1961.

The report, while pointing out that "to a considerable extent the Federal policies needed to help achieve sound and rapid growth can be applied administratively and require no legislative action," made a number of legislative proposals for congressional consideration. They are set forth in a summary check list in an appendix to these views.[1]

The Employment Act further directs that the Joint Economic Committee, as a "guide" to the committees of Congress, "* * * not later than March 1 of each year" file a report containing its findings with respect to each of the main recommendations made in the Economic Report. This the Joint Economic Committee did not do.

Although the committee had a program before it for consideration, the majority of the committee chose to ignore completely the timely economic recommendations submitted by the executive branch pursuant to law. In spite of the fact that the economy had then been undergoing a slowdown for several months, the Democratic majority of the committee deemed it expedient to delay reporting while the new administration could observe the economy and develop measures of its own.

Meanwhile, the current congressional session has run more than half its expected course—assuming recent sessions offer some measure of length, even if the timely adjournment called for by statute is again disregarded. It should hardly be necessary, incidentally, to remind the Democratic majority responsible for this partisan delay and neglect, of its own erstwhile impatience with similar delays in the past. Its fretfulness at delay on earlier occasions led, indeed, to amendment of the Employment Act requiring that the President's report be filed not later than January 20, instead of at "the beginning" of the session as had previously been the law.

Happily, the vitality and natural workings of the free enterprise system itself have, in the interim, brought increasing signs of economic recovery without material aid from Government. One of the President's closest unofficial advisers is reported to have characterized the administration's antirecession measure as "a placebo program for recovery"—a program that has depended on making the patient feel better without doing anything.

Temporary supplements to the regular benefits of unemployment compensation and aid to areas of persistent unemployment will, in due course, undoubtedly prove helpful and were recommended in the January 18 President's report. Appropriate under the circumstance

[1] See Economic Report of the President, January 1961, pp. 64–67.

also were efforts to speed tax refunds, to enlarge the distribution of surplus foodstuffs to the needy, to speed early payment of dividends on veterans' life insurance, to speed procurement which had already been scheduled, and to accelerate Government lending under existing programs.

The improvements in economic indicators thus far have nonetheless again justified confidence in the faith underlying President Eisenhower's Economic Report of January 18. That faith holds that—

> In our free economy, economic growth, and the improvement of living standards depend, not primarily on what Government does but mainly on what is done by individuals and groups acting in their private capacities.[2]

In any case, the committee has now had placed before it a piecemeal economic program, which skips lightly over the recession, as such, and calls for a larger longrun role for Government and public expenditures. This program is partially set forth in more than a score of Presidential pronouncements supplemented by testimony of administration spokesmen. This includes the public testimony of the President's Council of Economic Advisers presenting to the committee something which may, not unfairly, be viewed as the theoretical foundations and philosophy which underlie the economic policies of the new administration.

THE STAGNATION THEORY AND ITS SHORTCOMINGS

This economic program leans heavily on the premise that the country is suffering from a chronic "slack" in production, that is to say, that there is a growing "gap" between actual output and national economic "potential."

Perhaps the administration's position can be best conveyed by a few excerpts from the statement of the Council of Economic Advisers. According to the Council—

> the American economy today is beset not only with a recession * * * but with persistent slack in production and employment, a slowdown in our rate of growth.

Further, according to the Council—

> economic recovery in 1961 is far more than a cyclical problem. It is also a problem of chronic slack in the economy—the growing gap between what we can produce and what we do produce * * * Especially since 1955, the gap has shown a distressing upward trend.[3]

The Council informs us that "the problem of unused potential becomes continually more urgent." In the Council's view the gap between actual and potential output has not only been growing, but has become very large. The gap is said to have been $32 billion for 1960 as a whole. Using annual rates, the gap is estimated at $40 billion for the fourth quarter of 1960 and at $50 billion for the first quarter of 1961.

[2] Ibid., p. 57.
[3] Hearings, Joint Economic Committee, "January 1961 Economic Report of the President," pp. 314, 321, and following.

What might have been in the past, and what a different economy might be like in the future, are always thought-provoking speculations. However such speculations can be harmful when cloaked with statistics of precision, and made the foundation for public policy and planning.

Before any speculative premise downgrades the accomplishment of the dynamic free system in a call for more governmental intervention, we would be well advised to study with care the assumptions behind the major premise. Before accepting economic nostrums—much less prescribing them—we need to ask many questions. Examination of just two of these will serve to illustrate the frailties of the "gap" analysis. Let us look at the validity and meaning of the concepts, first of economic "growth" and second, of economic "potential."

GROSS NATIONAL PRODUCT IS AN INADEQUATE MEASURE OF NATIONAL WELL-BEING

In its second appearance before the committee, and in written reply to questions of committee members, the Council of Economic Advisers has done a considerable public service in characterizing GNP, the frequently applied measure of economic growth. In doing so, they have done no more perhaps than summarize what the professional economist already knows. But, for the layman and the general public, they have underscored the shortcomings and pitfalls of this accepted measure when put to use as a cornerstone for determining public policy. We can hardly do better than commend attention to the Council's entire response and quote several of their general caveats.[4]

> Gross national product, like any aggregative index of economic activity, is an imperfect measuring rod. Most of its limitations are inherent in trying to describe a complex economic system by a single number. Inevitably much that is important and interesting is left out. Other difficulties and limitations stem from:
>
> 1. The very concept of production (e.g., the omission of leisure), the exclusion of many nonmarket activities (e.g., the services of housewives), and the necessity of imputing values to other goods and services that do not pass through the market (e.g., the services of owner-occupied homes).
>
> 2. The often tenuous distinction between final and intermediate output (in particular the treatment of government expenditures, the replacement of plant and equipment, and research and development expenditures).
>
> 3. Questions of valuation and price correction, and the related problems posed by product changes.
>
> * * * * *
>
> Each of the difficulties mentioned above becomes more substantial as the time scale of comparisons is lengthened. For this reason GNP, like any summary measure, is a safer guide to short-range comparisons than to very long-range ones.

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[4] Hearings, ibid., pp. 564, 566.

Gross national product is thus concerned only with the quantities of goods and services as measured by the expenditures by which these goods are acquired; it is not concerned with the mix between economic and noneconomic satisfactions. It includes, for example, at cost wasteful production such as agricultural excesses and military equipment technologically obsolete, even though such items may be a net loss to the economy.

On the other hand, it either neglects entirely or imperfectly reflects all nonpecuniary "products" including such highly valued intangibles as paid vacations, quality differences both in goods and services at the same cost, superior working conditions, improved diet, and entertainment possibilities, improved medical attention per dollar of expenditure, feelings of personal security, or the influence on individual welfare of the distribution of income. Think, for example, of the improvements and pleasures arising from do-it-yourself construction and repair which appears in GNP only in terms of tools and materials purchased.

Genuine economic growth is thus not adequately reflected in our present limited tools for measuring economic phenomena statistically. Meaningful economic growth is something more than massive economic activity which may be going nowhere or even going backward. Gross national product measures only this massive economic activity. Meaningful economic growth is to be found in the new and improved goods and services available on the market for more and more of our people.

Meaningful economic growth is to be found in increased economic flexibility, more and better transportation, communication, power and its availability, a more mobile labor force which can shuck off skills that have become obsolete and learn new and higher skills. Meaningful economic growth is to be found in a shift of employment from the manufacturing sector to the distributive and service sectors, and a shift within manufacturing itself from blue-collar workers to white-collar workers.

Meaningful economic growth is to be found in increased productivity which, in turn, is found in more availability and cheaper power per person, more training, better health, better housing, better recreation, more leisure time, in fact all things that go not only to meet the needs of technological progress, but to increase the standard of living of more people. Increased productivity means utilization of disabled workers and older workers, not merely shucking them off and removing them from the labor market by a policy promoting earlier retirements.

Meaningful economic growth is to be found in increased activity in the fields of research and development, particularly in the field of basic research. Meaningful economic growth is to be found in freeing the individual so that he can make more economic and other choices for himself. Increased leisure time widely diffused in a society is an indicator of economic progress. It is especially so when it permits and encourages scholarship since the search for truth, is the source of all progress, economic or otherwise.

By all of these indicators our society has had enormous economic growth in the past few decades. Today we stand upon the threshold of a new era if we will only take fair stock of ourselves. Finally, meaningful economic growth is to be found in a change of attitude towards one's fellow man—an attitude of appreciation that a coworker has for a fellow coworker, in place of an attitude of distrust, contempt, or envy.

Once all of these reservations are clearly set forth and understood, it is perhaps only fair to concede with the Council "that GNP corrected for price changes is the best overall measure of economic activity that we possess." [5] The question is whether it is good enough for policy guidance, especially when compounded with an equally suspect concept of economic potential from whence measured against actual GNP comes the assorted gap.

THE CONCEPT OF "POTENTIAL" AS A CORNERSTONE OF PUBLIC POLICY

The theoretical and statistical procedures underlying estimates of future potential output and hence the degree of slack performance yesterday, today, or tomorrow, are, in the words of the Council of Economic Advisers, "at best hazardous and uncertain." [6] This kind of warning from high professional authority should, taken alone, make the policymaker in and out of Congress extremely wary of action taken on the strength of statements that the "unused potential is equal to $500 per American household, * * * almost twice the amount spent on public education," or "one and a half times the amount spent on new homes last year * * *." [7]

Projections of economic potential can be neither estimated nor adequately explained by passing a line through data portraying the past—as the technicians would say, by simple extrapolation.[8] There is a wide and varied range of possible, and often equally plausible, assumptions upon which to project in the future.

The particular gap model presented to the committee assumes a 3.5 percent trend in gross national product as the measure of potential made up of a 1.5 percent per year upward trend in labor force, a secular increase in real gross national product per man averaging 2 percent per year, projected from a base of actual economic performance in mid-1955.

Why, it may be asked, does the curve depicting potential output start in the middle of 1955? The reason is that unemployment was then approximately 4 percent of the labor force, and the Council regards a 4 percent unemployment rate as a "reasonable target for full utilization of resources."

And why is this curve of potential output allowed to rise at an annual rate of 3.5 percent? Because, this rate, we are told—

> represents the rate of advance of gross national product (corrected for price changes) that our economy now achieves when it operates at reasonably full employment.

Once the curves of actual and potential output are drawn, the gap between them is obtained by subtraction. The first and perhaps the most important question raised by this arithmetical exercise is why the curve of potential output is passed through the middle of 1955.

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[5] Hearings, ibid., p. 567.
[6] Hearings, ibid., p. 373.
[7] Hearings, ibid., p. 325.
[8] The minority invites attention to a penetrating analysis of the Council of Economic Advisers' "gap" of "stagnation" theory, as presented by Prof. Arthur F. Burns of Columbia University and president of the National Bureau of Economic Research. The speech given at the 10th Annual Business Economic Conference, University of Chicago, Apr. 21, 1961, is reproduced in the Congressional Record, Apr. 27, 1961, appendix, p. A2885.

True, the unemployment rate was about 4 percent in mid-1955 and actual output may therefore be taken as equal to potential output at that time. But the unemployment rate was about 4 percent also in the second quarter of 1947, in the second quarter of 1957, and in other scattered quarters of the postwar period. Any one of these quarters or dates could have served just as well as mid-1955 for the starting point of the 3.5 percent curve of potential output.

The results, however, would have been very different. As the Council draws the 3.5 percent curve, the gap between actual and potential output in 1960 comes out $32 billion. But if the curve had been started in the second quarter of 1957, when we also had a full-employment output by the Council's criterion, the gap would have been only $20 billion. If the curve had been started in the second quarter of 1947, when we likewise had a full-employment output, the gap would have vanished. In fact, we would then have to say that actual output in 1960 exceeded potential output by over $2 billion.

It is plain from these calculations that by merely varying the starting point of the 3.5-percent curve, and doing so without departing from the Council's logic, we can easily draw a more encouraging picture of the recent past than the Council has drawn.

It is not that the plausibility of the 3.5-percent annual rate is in question, but that a somewhat lower or somewhat higher figure would be equally plausible. The point to be underscored and remembered is that small differences in the growth rate are capable of making very large differences in making projections of national output.

If it be assumed that a full-employment output exists when the unemployment rate is 4 percent, then every figure of the gross national product at times when unemployment is at this level must express a full-employment output. A curve linking such figures will then automatically show the rate at which real output advances when our economy operates at reasonably full employment. Unhappily, however, numerous pairs of such figures can be found in the postwar period, and some pairs yield a growth rate of less than 3.5 percent while others yield a higher rate.

Reliance upon the gap concept, based as it is upon a trend line, depends, in large measure, upon the further questionable assumption that demand and supply relationship do not change. Only in a static economy would relationships of the past be meaningful in prescribing for the future.

The fact is that the composition—"the mix"—going into a given gross national product never has stayed the same but changes from year to year and day to day. Changes of the same magnitude in aggregate gross national product—up or down—need not be and, indeed, would scarcely ever affect various segments of the economy in the same way. It is quite possible to have varying rates (and structure) of unemployment with the same GNP output, apart from changes in the value of the dollar. It is equally possible to have an expanded output with the same rate of unemployment or a changed rate (and structure) of unemployment with either an expanded or shrunken output.

As the Federal Reserve Bank of Philadelphia points out—

> * * * Consumers themselves are changing and so are their spending habits. Spending has shifted away from some old

> standbys and this could be an important cause of the current business setback. Some of our present excess plant capacity and unemployment certainly are located in industries whose products consumers no longer favor * * * The shift away from these hard goods may have a significant effect on the course of business. The products and services consumers covet today do not have the explosive impact on the economy that durables and housing have.[9]

Consumers stocked up on housing and durables in the decade following the war. Now that this backlog demand for housing and hard goods has become largely a replacement demand, it would be unrealistic and misleading to plan on a potential as an expansion of trends along the past lines projected. Now that consumers are free to turn their choices to another order of preference it seems reasonable for example that one of these new high order demands may be increased spending for college education for the rising population in the 15- to 24-year-old group. We may, as a consequence, have overcapacity and unemployment in durable goods manufacture, and undercapacity and shortages on the campus. This is only one example illustrating the point that attempts to deal with slack judged from an aggregate base line passed through historical data—no matter how impeccable the mathematics—is likely to add to, rather than cure, our economic problems. The problem, incidentially is aggravated by the fact that policy decisions founded upon a projected potential are themselves influential in bringing about changes in the product mix.

A final observation about the uncertainties inherent in potential analysis as a basis for public policy is that no two economic cycles in the past have followed the same course and there is no reason to expect that the current recovery will not follow a still different pattern. As evidence of the refusal of the economy to follow old channels, consider the last two cycles.

From the trough of the recession to the recovery, gross national product in constant dollars increased by about the same percentage—1953–57, 10.6 percent; 1957–60, 10.9 percent. Although the aggregate change was thus similar there were very substantial differences between the two cycles in (1) the behavior of fixed business investment which increased 13.4 and 0.8 percent, respectively; (2) in consumption which increased 9.9 and 7.8 percent, respectively; (3) in residential construction which increased 22.9 and 32.9 percent, respectively; and (4) in Federal purchases which increased 9 and 2.8 percent, respectively.[10] Only history can tell us the pattern of recovery now underway.

The Council also cites as evidence the progressive decline in the duration of business-cycle expansions in the postwar period. The expansion of 1949–53 lasted 45 months. The expansion of 1954–57 lasted 35 months. The expansion of 1958–60 lasted 25 months. In other words, successive upswings have been progressively shorter, and this is a symptom of noncyclical or secular slack.

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[9] See "The Royal Family Grows Restless" (i.e., consumers), Federal Reserve Bank of Philadelphia Bulletin, February 1961.

[10] Hearings, Joint Economic Committee, "Current Economic Situation and Short-Run Outlook," Dec. 7, 1960, p. 117.

In judging this evidence, it is necessary to recall that the expansion from 1949–53 was dominated by the Korean war. This expansion might well have been shorter if the war had not lasted so long.

Historically, wartime expansions have always been exceptionally long. Indeed, the expansions of 1861–65, 1914–18, 1938–45, and 1949–53 are the longest business-cycle expansions that we have had.

Since the expansion of 1949–53 is clearly an abnormal case, it is best to put it aside. We are then left with the fact that the most recent business-cycle expansion was shorter than its immediate predecessor. There is nothing remarkable about this fact. Of itself it surely provides little reason to expect or to fear secular stagnation.

The Council cites, however, another piece of evidence, namely, unemployment was approximately 3 percent at the peak of business in 1953, but about 4 percent at the business-cycle peak in 1957, and about 5 percent at the business-cycle peak in 1960. This evidence seems to suggest that successive upswings are becoming weaker.

However, the peak in 1953 was a wartime peak of activity. It seems more sensible to regard the 3 percent unemployment rate of 1953 as an exceptional case than to take it as a yardstick of economic performance.

This is as clear when we look back of 1953 as when we look forward, for the employment rate was about 4 percent at the business-cycle peak of 1948 just as it was 4 percent at the peak of 1957. It is true that the unemployment rate was appreciably higher in 1960 than in 1957. This comparison is entirely valid. But a single instance of higher unemployment of itself gives fragile support to the generalization that successive upswings are becoming weaker or to the theory that the gap between actual and potential output has a distressing upward trend.

THE MAJORITY REPORT IS CAUGHT UP IN "THE GAP TRAP"

The majority report of this committee following quite closely the line of the testimony of the Council of Economic Advisers, fails to present a broad and fair appraisal of the U.S. economy in 1961. Such an appraisal would include recognition of the good features which we should preserve and strengthen, as well as the weak spots which we should strive to correct.

The majority report is a narrowly partisan political document which follows the line of carping and negative criticism of the Eisenhower administration which was the hallmark of the approach taken by the Democratic leaders during the past 6 years when they controlled the Congress. This negative line of approach, downgrading the United States and the private enterprise system, was carried over into the presidential campaign of 1960 by the Democratic candidates and remains dominant in President Kennedy's economic messages so far delivered to the Congress.

This narrow approach to the problems of the sixties by the Kennedy administration, almost an apology ahead of time for not meeting the problems that face us, is dangerous to the welfare of our country.

We can readily understand the natural desire of a new administration to make everything look as dark as possible at the time of take-over so that whatever progress is achieved from then on becomes of greatest possible credit to the new administration. And conversely, if things go badly this process of downgrading our present situation makes it easy to cast blame on that which has gone before. Howevery, this tendency should be curbed in the interest of our Nation's welfare. We do need to know what is good about our system so we can build on its goodness, just as we need to know what is wrong so we can correct it. Furthermore, the good reputation of the private enterprise system is particularly important in the international picture today. Much damage has already been done to the United States by the Democratic leaders through their failure to keep what might be just criticisms of the inadequacies of the private enterprise system in context with its achievements.

The proposals of the Kennedy administration shorn of their semantics turn out to be an inadequate carryforward of the Eisenhower proposals, watered down, without any real shift in emphasis. However, it is possible that the economic philosophy propounded by the Kennedy administration in words could become translated into legislative proposals. To forestall such an inauspicious and dangerous shift it is important to contradict this underlying philosophy.

The economic philosophy advanced, although not yet fully implemented by the Kennedy administration is bottomed on the hypothesis that unemployment and economic growth are solved by increasing aggregate consumer purchasing power and that the Federal Government is the primary institution to bring about this increase. This philosophy is based upon the premise that increased consumer purchasing power is for all practical purposes automatically transmitted into consumer demand. It is a philosophy that stems from 19th and early 20th century classical economics which dealt with a world of constant scarcities of goods and services desired by an ever-hungry consuming public.

However, it is becoming quite apparent that the dynamic economy of the United States based upon the free enterprise system is moving us, or has moved us into a new era, an era where consumer purchasing is based upon adequate power to spend and now depends upon consumer choice and decision freed from economic necessity and not upon injections to increase consumer purchasing power. The consumer may have the dollars to buy but he does not choose to buy. This is something to be thankful for, not something to be regretted. But, an economy based upon plenty instead of scarcity creates problems of its own. These are new problems in many respects and we must show imagination in discovering them and dealing with them. We have new wine and we can no longer put it into old bottles; labeling it "New Frontier" does not solve the bottling problem.

Continued economic growth of the wholesome kind creates two major problems. And the more rapid the growth the more aggravated these two problems become. The first problem is that of technological employment and unemployment. Technological advancement, by its very nature, while creating a need for new skills makes obsolete various ways by which men have been making their livelihood. Those ways of making a livelihood most affected are concentrated in the unskilled and semiskilled occupations. The President's Council of Economic Advisers, in their testimony on the subject of unemployment, largely overlooked the impact of technological advancement on the unskilled and semiskilled labor force. Technological advancement hits at all levels of employment but strikes at the least skilled the most.

Throughout the majority report runs an almost morbid concern with the economic disruption and displacement that lie in the wake of economic progress. Instead of dwelling on the hardships that attend shifting employment resulting from technological advancement we should point to the new life that has been born as the result of this progress. Nothing has been developed in all the discussion by the majority of technological unemployment about the new and better jobs that have been created. Nothing is said about finding out the number of jobs that are available and unfilled as a result of technological advancement. All attention is instead directed to the incidence of the unemployment which we have. The number of unfilled jobs is a statistic that should be considered at all times alongside of our unemployment figures. The fact that we are not today adequately keeping statistical account of new skills in demand by types, and location only attests to the morbid approach taken toward technological advancement.

We do not share the pessimistic assumption of the Kennedy administration that technological advancement creates less jobs than it displaces. We think that only a failure to study fully the process of technological advancement in detail leads to such a pessimistic and untrue conclusion.

The best answer is to observe the jobs that exist in our economy today that did not exist in the past when the economy was less advanced. Studies should be made by this committee of the process by which new jobs are created. We need to know more about how and where technological advancement creates new and more jobs. Instead of studying failures and talking in terms of accepting 4 percent unemployment as inevitable, let's start studying success and build upon it. We see no reason why advanced technology should create any real unemployment if we recognize those in the process of retraining as gainfully employed which, indeed they are, economically speaking.

The problem lies in the process of training and retraining for the new skills which are constantly being created. This is a happy problem to deal with, though by no means an easy one or one that does not require considerable effort upon the part of the individuals within our society who must buckle down and start using more of their brains and less of their brawn.

The second major problem created by rapid technological growth is increased price of goods and services. The greater the rate of growth the more obsolete machinery there will be, the more obsolete skills there will be, and hence the more need there will be for capital to replace machines with better machines and to replace the old skills with the new, greater, and more costly skills now needed. The greater the advancement the more effort must have been spent in research and development. All of these costs must be recouped in the marketing of the new product or new service which constitute economic advancement, if we are to maintain a meaningful system of social accounting. And indeed the costs involved in advertising and marketing a new product or new service must also be reflected in the price.

The costs of economic advancement are more than recouped by the society as a whole in the economic progress that results. However, within the society the increased price of the new goods or service creates problems.

The Consumer Price Index is not adjusted in any real sense for economic advancement—in quality, choice, and the many intangibles which make it up. Therefore, some of the price problems that we see in rapid economic growth as measured by this indicator have been misunderstood. We have used the Consumer Price Index primarily as an indicator of the purchasing power of the dollar, as a thermometer, as it were, to measure the fever symptom of the monetary disease inflation. From its inception this index was related to the cost of living rather than to the standard of living. The CPI almost presumes a constant standard of living and naturally in a period of rapidly increasing standard of living, its effectiveness as a measuring stick has been weakened.

Rapid economic growth does not necessarily bring inflation since the improved quality or choice involved in the new product or service is more than worth the increased price that it demands. This committee by suggesting revising the Consumers Price Index has directed attention to the bias in this valuable indicator in failing to adjust for real economic growth.[11]

The lack of understanding of a dynamic economy operating on a basis of plenty as opposed to one of scarcity is most forcefully demonstrated by the previously discussed abstract model the President's Council of Economic Advisers have developed to "prove" a gap between the economic potential and the economic achievements in our society.

The very idea of proposing a model as abstract and as removed from reality as this one is to provide the base for an entire legislative program for the Federal Government is amazing. Aside from the fact that the model is based upon limited means of measuring aggregates * * * GNP, and unemployment, the idea of trying to measure economic potentials in terms of aggregates and basing legislation on such evidence is fantastic.

At the cost of some repetition let us remember that the majority report falls into the "gap trap" founded on a model which leaves out of consideration all that is most meaningful in creating jobs, creating economic activity. It ignores the basic economic process of putting skills together with machinery to produce, of putting skills together to distribute production, of putting human skills together to provide services.

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[11] Congressman Curtis makes the further observation on this point:

Increased price, even though quality is improved commensurately does of course create problems. A mycin drug costing $10 is worth 20 times more than—really an infinite number of times more than—a $1 bottle of patented medicine from the standpoint of health. However, before the mycin drug was available it cost the sick person only $1 for the best medicine that money could buy. Consumers do have a problem of keeping up with the increased prices of the new and better goods and services now available. To them the problem is one of keeping up with the increased standard of living now available to the society, not keeping up with the cost of the old standard of living.

Efforts to adjust the money supply to keep up with economic growth should accordingly not be limited to following the GNP indicator, but should be related also to some factor which recognizes changes in the standard of living. Money supply should be increased, that is, in accordance with increases in aggregate economic activity but should also, as best it can, provide for increases in the cost of living resulting from increases in the overall standard of living of our people. In this fashion we will ease the price problem inherent in rapid innovation and increased quality of goods and services available in the marketplace.

In a dynamic economy leisure time is not waste. Retooling time is not waste. Abandoning obsolete skills and obsolete machinery is not waste. The steel shavings from processing a steel bar is not economic waste. Yet that is the assumption of the economic model purporting to show a gap between the economic achievements of our society and the economic potential.

Contrary to the premise underlying the majority report and the administration's philosophy, there is no definable economic gap in our society. We can surely improve our economic process, but not by destroying that which is good by calling it bad. Nor can we improve ourselves by ignoring the real problems that a fast-moving and highly productive economy creates by a morbid concentration on the wake that follows in the sea left behind.

MONETARY POLICY

The Board of Governors of the Federal Reserve System, speaking through their Chairman, ever since the adoption of the "bills preferably" policy as the best open market device for supplying reserves, have consistently and repeatedly stated that the policy was not rigorously held, but would be varied from time to time as changing conditions warrant. On several occasions in the past, purchases have been made of longer term securities. It was therefore to be expected that a situation such as the gold problem of late 1960 would be met by a change within the framework of "bills preferably" which, incidentally, is sometimes incorrectly referred to as a "bills only" policy.

While the majority of this committee continues to repeat its recommendations urging the abandonment of this policy, we cannot help but express the hope that the important considerations inherent in the balance of payments problem will soon be lessened, so that it may be possible for the System to return to the general rule of supplying reserves and leaving to market forces the determination of relative interest rates.

Our concern is not, of course, with the objective or the desirability of the lower long-term rates of interest so vigorously recommended in the majority report. It rises rather from the fear that once the moorings and discipline of the market have been cast off, the drift into evermore rate tampering and "price rigging" of interest costs will be hard to control and even more difficult to reverse.

The majority report is almost obsessive in urging that monetary policy be directed at "nudging" long-term rates downward. This reflects the same economic philosophy that required the Federal Reserve System, prior to 1951, to peg the Government bond market—a policy which resulted in serious inflationary pressures.

Just how far this nudging shall go short of outright "pegging," as was done prior to 1951, no one has said and, presumably, would not now be willing to suggest. Surely we may expect that less, rather than more, private capital will be attracted into the long term market by the lower rates now proposed. If, as seems reasonable, lower long term rates do fail to attract short and intermediate into the long term market, the temptation to follow the path of still more Government intervention in the effort may sooner or later challenge anew the defenders of free capital markets.

We hope that the administration, in spite of the urgings of our committee majority, will have sufficient confidence and respect for free markets and the statutory independence of the Federal Reserve System to withhold pressing for a continual departure from the "bills preferably" or other "soft money" policies.

PRICE STABILITY

In view of its interpretation of recent history, the Council of Economic Advisers logically concludes that "the expansionary effects of Government programs will be welcome even if they occur well after the recession has been reversed."

The mildness of the recent recession supports the thesis that the underlying forces of economic expansion are strong and that they have of late been only temporarily suppressed. Signs of economic recovery are already here and are rapidly multiplying. *In view of these facts and in view also of the substantial increases of Federal spending recently initiated, it would be courting inflation and a new gold crisis to plan now new governmental spending programs which would mature when the economy was already advancing without them.*

With the Government again facing deficits and proposals for larger and larger spending being met at every turn, it is time that we reassure our savers and the foreign owners of dollar balances that price stability is a serious objective of the American people. To argue that it is implicit in the Employment Act of 1946 is effectively to sweep it under the carpet without laying to rest once and for all time the doubt, however well or ill founded, whether we really mean what we say about stabilizing the value of the dollar. We concur therefore in the recommendation repeated in the Economic Report of January 18, 1961, that the Employment Act be amended to make the maintenance of a reasonable stable price level an explicit aim of Federal economic policy.

JOINT ECONOMIC COMMITTEE PLANS

While it is essentially an intracommittee problem, we find it difficult to reconcile some of the majority report's glib recommendations with the announced program of committee activities for the remainder of the year. In more than one instance, the majority appears already to have arrived at firm conclusions which its contemplated studies may or may not support.[12]

1. The entire majority report is based on the premise that "structural" unemployment is relatively unimportant while the committee's plans propose a study by a subcommittee to examine "the cyclical, secular, and structural character of unemployment."

2. The majority report makes the recommendation that the 25 percent gold reserve requirement against Federal Reserve notes and deposits be eliminated, along with several other recommendations with respect to the balance of payments. A subcommittee is already at work under a directive "to look into the gold and balance-of-payments question." It will be surprising if this subcommittee's activities are not hampered by the fact that the majority has already announced its conclusions in this complicated area.

[12] Committee report, pp. 47-50.

3. The majority report recommends more flexible private pension systems and urges specific recommendations respecting vesting of pension rights. At the same time the program of work for the coming year states that a subcommittee "will study and hold hearings on the effect of the private pension system on employee mobility."

4. The majority report makes quite specific recommendations in the field of foreign trade policy. In doing so, they are surely prejudging evidence to be sought and weighed by a subcommittee, which it is said, "will conduct studies and hold hearings on such subjects as trade, trade agreements, international investments, U.S. imports and exports, and U.S. foreign aid."

5. The majority report recommends the introduction of a Federal capital budget while the program for future activities proposes a study which will try to determine how the budget can be made a more useful document.

6. The majority report, grasping at administration proposals, thus far revealed recommends a number of incentives to investment while the committee's program speaks of full committee hearings on the volume and stability of private investment.

It is difficult to see the purpose of or how these studies can be useful if the committee is already in a position to state its conclusions in such substantial areas.

Since these studies and inquiries are yet to be made, we of the minority have reserved judgment on these points at this time and have concentrated our major attention on the "slack" and "gap" contention which underlies the administration's economic policy.

CONCLUSION

The economy is apparently on the way to recovery. It is important to note that this turnabout has been substantially the product of the dynamic enterprise system itself with, up to this point, at least, little direct help from Government. The present administration admittedly has not addressed itself to the problem of recession so much as it has to what it chooses to regard as the problem of long-run growth and gap closing.

In a free society economic development comes naturally in the direction and magnitude that the people want, as evidenced by their saving and investment decisions. We have no quarrel, nor does anyone, with the ideal of growth, but we do question the tendency to set it up as a goal in itself and to ascribe an increasing share of the responsibility for attaining it to Government.

Considering the inherent frailties of the measurement of growth and of the calculated mathematical "potential" which we have discussed at some length, we believe that Members of Congress may safely judge various legislative proposals in the several areas on their respective merits without being too concerned about their alleged need for, or defense as a contribution to, "gap closing."

We are, accordingly, skeptical of the view that greater Federal investment in education, health, housing, research, and resource development will accelerate the Nation's long term economic growth. Some of these types of expenditures, may be justified on grounds of social welfare and others on grounds of improved economic efficiency, but it is hard to see how all of them can accelerate the Nation's long term economic growth merely because we call them "investment."

Efficiency and productivity are undoubtedly promoted by some types of investment but they can also often be promoted without any additional outlays or even with reduced outlays. If we seriously want to accelerate economic growth we should search out and remove many existing impediments to efficiency whether they arise from careless supine business management from the coercive power of trade unions or from governmental legislation itself.

In discussions and programs which turn upon the premise of "slack" and "slowdown" there seems indeed to be a disposition to look askance at the dynamic economy and assert a need for tinkering with it since it sometimes makes mistakes and proceeds by spurts. The majority report of this committee for example refers to this as an "affliction." We believe that the touchstone for judging legislative proposals may nevertheless be better directed toward maintaining the goal of a dynamic economy since dynamics and change are precisely what is necessary to support the private efforts to grow and realize our maximum product and well-being.

HOUSE OF REPRESENTATIVES

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

SENATE

PRESCOTT BUSH,
JOHN MARSHALL BUTLER.

APPENDIX TO MINORITY VIEWS

Legislative Recommendations in January 18, 1961, Economic Report of the President

I. Employment and unemployment:

1. Extend coverage of the unemployment compensation system to about 3 million additional workers, most of whom are employed in firms having fewer than four employees.
2. Give consideration to a program which would temporarily supplement regular benefits in some such manner as was done with good effect in 1958.
3. Enable the Federal Government to assist areas that experience high and persistent unemployment, directing funds to localities of greatest need and avoid spreading available Federal funds too thinly over a large number of areas.
4. Extend coverage of the Fair Labor Standards Act to several million workers not now receiving its protection, and make a moderate adjustment in the minimum wage provided in the act.
5. Establish a statutory commission on equal job opportunities under Government contracts and enact legislation for carrying out the proposal of equal pay for equal work without discrimination because of sex.
6. Remedy the serious defects in the legislation enacted in 1958 to protect the interests of the Nation's working men and women in private pension and welfare plans; and revise the outmoded provision of the 8-hour laws applying to Federal and certain federally assisted construction projects.

II. Federal fiscal policy:

1. Hold appropriations for fiscal 1962 within the limits of expected revenues.
2. Extend present tax rates on corporation income and excise taxes for another year.
3. Enact measures to charge users for special benefits which they derive from particular Government activities.
4. Raise highway fuel tax to 4½ cents per gallon to provide funds in the highway trust fund sufficient for construction of the Interstate Highway System on schedule; and rescind the action taken by the Congress in 1959 which diverts funds from the general fund of the Treasury to build this road system.
5. Raise the excise tax on aviation gasoline from 2 cents to 4¼ cents per gallon, impose the same tax on jet fuels, and retain the receipts from these taxes in the general fund to help defray the cost of the Federal airways system.

6. Provide a rate increase which will put the postal system on a self-supporting basis, apart from specified public services.

III. Monetary legislation:

1. Give the Secretary of the Treasury authority to raise funds in the long-term capital market when, in his judgment, this is in the public interest, even if the cost of the funds is above 4½ percent.
2. Make reasonable price stability an explicit goal of national economic policy.

IV. Housing:

1. Repeal statutory termination dates on existing programs for housing and community development and provide for their control through normal appropriation processes rather than by limitations on authorization amounts.
2. Eliminate or adjust maximum permissive interest rates to levels that will not bring about a restriction from time to time in the flow of investment funds.
3. Remove limitations on the amount of mortgages that can be insured by the Federal Housing Administration.
4. Remove legislative limits on grants for urban renewal projects and substitute permanent authority for annual appropriations.
5. Make permanent the program to insure loans on home improvements.
6. Present ceilings on interest rates should be eliminated or substantially raised for loans made or guaranteed by the Veterans' Administration and for mortgages insured by the Federal Housing Administration on rental housing, especially housing for the elderly, and on family housing built for occupancy by members of the armed services.

V. Agriculture:

1. Modify price support laws to reflect unit cost reductions resulting from increasing technological efficiency on commercial farms and thereby reduce budget expenditures for the stabilization of farm prices and support of farm income.
2. Make maximum effort to use more of our accrued agricultural surpluses in the food for peace program.

VI. Competition:

1. Require firms of significant size engaged in interstate commerce and proposing to merge to notify the antitrust agencies of their intention.
2. Give the Federal Trade Commission authority to seek a preliminary injunction in the case of mergers likely to violate the antitrust laws.
3. Give the Attorney General the power to issue civil investigative demands for the necessary facts when civil procedures are contemplated in antitrust cases.

VII. Education and health:

1. Supplement the Federal Government's established programs for assisting education by aiding States and local communities and institutions of higher education to provide needed educational facilities.
2. Amend and expand the program of Federal assistance for medical care for older persons under the regular old age assistance program and the new program of medical assistance of needy older people who are not recipients of public assistance so that more older people will be able to obtain needed protection to cover major hospital and medical costs incurred because of serious illness.

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INDIVIDUAL VIEWS OF SENATOR JOHN MARSHALL BUTLER

1. FOREWORD

The majority's report in its foreword shows a complete lack of understanding of the concepts which were adopted by the Congress after heated and prolonged debate in 1945 while World War II was still in progress to establish a free enterprise economy. Although subsequent chapters of its report refer to private enterprise, there is nothing in the foreword outlining the objectives of the Employment Act of 1946 to indicate that it provides that:

> SEC. 2. The Congress hereby 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 consideration 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.[1]

There is normally no mass unemployment in Communist-dictated countries. It is a phenomenon of freedom and results from the fact that individual consumers are the arbiters of our economy. They are the ones who determine where the individual shall work and the type of occupations in which they shall be employed. Unless we are ready to abdicate this essential and basic principle, it is futile to talk of proposing a governmental organization which will supply a job for everyone. In fact, mere employment is not an end in itself. Rather it is the fruits that society gains from such employment that energizes our economy and provides the incentives and goals that lead to a useful and productive life for all.

President Eisenhower, on January 18, 1961, transmitted his final Economic Report to the Congress of the United States. A reader of the majority's report would gain the impression that we have been woefully lacking in utilizing our resources or in providing adequate employment for our people. In order to set the record straight, it is important to note that in terms of dollars of constant purchasing power, the gross national product increased from 1953, at the time when President Eisenhower assumed office, until 1960 by 18.3 percent.[2]

Furthermore, the majority's report implies that there has not been a substantial number of new jobs created which have added to our

[1] "Current Price Developments and the Problem of Economic Stabilization," hearings before the Joint Committee on the Economic Report, 80th Cong., 1st sess., pt. 1, June 24, 1947, p. 1.
[2] Economic Report of the President, transmitted to the Congress January 18, 1961, p. 128.

personal welfare, our educational facilities, our national health, and our armed strength. In 1953, at the time when President Eisenhower assumed office, the total civilian labor force was 63,815,000.[3]

At present, it is more than 70 million people, an increase of 7 million, or more than 10 percent during his term of office. Although there have been some changes in the concepts used to measure employment by Government agencies and the compilation of data during this period is not consistent, nevertheless the fact remains that since 1953 the number of those employed has increased by 4.4 million.[4]

Any discussion of these figures overlooks the fact that during the period immediately prior to the inauguration of President Eisenhower, our country was engaged in a war with Korea, and many jobs had been created in order to supply our Armed Forces. All through the Eisenhower years we enjoyed a substantial measure of prosperity without sacrificing the lives of our loved ones. Regardless of how the majority may attempt to twist these data, it is still a fact that prosperity was attained without sacrificing our youth, and we are confident that history will record this as a major accomplishment.

In order to place these compilations in some perspective, it is worth noting that unemployment as a percent of the civilian labor force from 1933 when the Roosevelt administration first took office until the start of World War II never reached as low a level as was achieved during the Eisenhower years. We would hate to think that the only means at our disposal to restore and maintain a level of useful and gainful employment, as provided in the Employment Act of 1946, is to involve our country in a major holocaust.

2. ECONOMIC SITUATION AND OUTLOOK

The majority's report in its calculated effort to disparage the accomplishments of the past 8 years attempts to depict the present economic outlook as one marked by catastrophe and failure. Again, nothing could be further from the truth.

Great emphasis has been placed in its report on the current levels of unemployment. However, these data are not necessarily homogeneous figures. In fact, during the hearings before the Joint Economic Committee on December 7, 1960, Seymour L. Wolfbein, Deputy Assistant Secretary of Labor, stressed the fact that our current rate of unemployment may largely be attributed to the fact that we are presently absorbing the unusual number of young people who have just become 18 years of age into the labor market. In his testimony he said that:

> You see back in 1950 we were running about 2 million young people becoming 18 years of age each year. Now we are getting close to 3 million a year and, come 1965, we really almost go off the chart when we hit almost 4 million young people becoming 18 years of age each year.
>
> What we are really doing, of course, is reaping the results of the postwar high birth rates.
>
> This, of course, means that we are already beginning to get a real big increase in the number of new young workers coming in for jobs.

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[3] Ibid., p. 146.
[4] Ibid.

> Our estimate as a matter of fact in that there are going to be 26 million young workers entering the job market during the 1960's, way, way more than we ever had before, and that is something that began this year.
>
> As you can tell, that is only the beginning and as we look into the immediate years ahead this is going to be a very important phenomena with which we are going to have to deal.[5]

The problem is complicated by the fact that at the present time there are many people who lack skills that are badly needed. Until they have been acquired, new entrants into the labor market will be unable to carry their weight in our economy. Insofar as this fact is true, it is no reflection on the ability of the American free enterprise system to discharge its obligations of providing jobs and the goods and services which our people demand. On the contrary, this is a temporary situation and one which presents a challenge to the leadership of our country, as there are many tasks to be done at a time when the world is involved in so many difficult situations.

In the roundtable discussion which followed the presentation of expert testimony during the December hearings before the Joint Economic Committee, Representative Thomas B. Curtis raised a pertinent question with regard to unemployment. He said:

> Have we ever tried to measure the excess? That is what I wonder.
>
> I gave a subjective test. I said I read the New York Times want ads and you see just long lists of demands.
>
> That, of course, is just a straw in the wind. But has there been an attempt to measure any of that and "moonlighting," too?[6]

Prof. Charles L. Schultze was unable to supply any enlightenment on this basic point. The following colloquy is pertinent:

> I may confess my ignorance of some professional reading. I do recall a British article which attempted to measure this where the British have numbers which give job vacancies; so that you can match job vacancies against unemployment.
>
> My own impression is that while it always occurs even in the depths of a recession, you are going to find some industries short of labor in the sense they cannot get the kind of labor they want.
>
> This is why the mix of unemployment is so important to know.
>
> My own feeling would be that this has not increased so substantially, however, if at all, that we can now say that we ought to be satisfied with 6 percent unemployment because really from an aggregate standpoint it is no worse than 4 percent.
>
> It simply means there is more dynamism in the economy.[7]

[5] "Current Economic Situation and Short-Run Outlook," hearings before the Joint Economic Committee, 87th Cong., 1st sess., Dec. 7, 1960, pp. 4–5.
[6] Ibid., p. 112.
[7] Ibid., pp. 112–113.

Congressman Curtis also stressed the fact that the average individual today has more attractive alternatives available to him. For example, he said:

> The advancement in the field of health, which is to a large degree technological, does not show up.
>
> I always think of when I first came to Washington 10 years ago it took 5½ hours to fly down here and now it is usually under 3 hours.[8]

Mr. Wolfbein was in basic agreement with Representative Curtis that the problem of unemployment is not a lack of jobs for those with skills but, on the contrary, the availability of employment for those who have yet to master a trade. Mr. Wolfbein said:

> For example, Senator Sparkman, you will find that a very considerable portion as you know of the unemployed people, and this subject was brought out, are teenagers. They have the highest rate of unemployment of any group.
>
> When we ask ourselves why is this and we try to trace it back, you find that you always come inevitably to this group you call dropouts, young people who don't finish high school.
>
> The unemployment rate these days is 6½ percent. Among young people who have dropped out of school it is as high as 30 and 35 percent.[9]

The majority's report states that—

> The 1960–61 recession is, we believe—and hope—at a turning point.
>
> However, of all the expert witnesses we have heard, the most optimistic expected that, by the end of the year, 6 to 7 percent of the labor force will still be unemployed and unemployment would not be reduced to as low as 4 percent by the end of 1962. These expectations are based, moreover, on the assumption that the administration's legislative program will be promptly enacted, and that there will be a continued substantial increase in expenditures by State and local governments.[10]

It engages in a totally unwarranted castigation of those substantial achievements that have been made, and it appears to destroy the hope of those who are seeking work by insinuating that the American free enterprise economy has seen its best days. No responsible leadership can adopt such a course, as it is at variance with the facts. Better vocational training and higher educational standards are the means of securing employment for those who are presently finding it difficult to become members of the labor force.

There is one further comment that is in order, namely, the strong emphasis placed on growth as measured by the gross national product. As with so much other Government data, this figure too has now become a mystical number the average citizen would find difficult to define or explain. Actually, this sum is computed by the Department of Commerce. This concept was defined in the "1947 Statistical Supplement to the Survey of Current Business." It stated that—

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8 Ibid., p. 106.
9 Ibid., pp. 116–117.
10 1961 Joint Economic Report, report of the Joint Economic Committee, Congress of the United States on the January 1961 Economic Report of the President, 87th Cong., 1st sess., p. 3.

> * * * Gross national product or expenditure is the market value of the output of goods and services produced by the Nation's economy, before deduction of depreciation charges and other allowances for business and institutional consumption of durable capital goods. Other business products used up by business in the accounting period are excluded. The Nation's economy in this context refers to labor and property supplied by residents of the Nation. Gross national product comprises the purchase of goods and services by consumers and Government, gross private domestic investment, and net foreign investment.[11]

In other words, there is no attempt to measure the extent of the depreciation in real assets which has occurred.

If we consume our productive plant and thus actually reduce our ability to meet Communist aggression, it is possible under the concepts devised by these statisticians for the gross national product to rise and for the President of the United States to claim that our national growth has risen to an alltime high. This is an absurdity with which no sound economist or Member of the Congress would wish to associate himself.

The gross national product is also increased whenever Americans invest their funds abroad, and most importantly, it can be raised rather drastically by merely increasing the amount of Government payments, including wage rates. This measure is in sharp contrast to national income which is seldom discussed today. This same supplement defines national income as follows:

> * * * National income is the aggregate earnings of labor and property which arise from the current production of goods and services by the Nation's economy. The Nation's economy refers to the labor and property supplied by residents of the Nation. Earnings are recorded in the forms in which they accrue to residents of the Nation, inclusive of taxes on those earnings. They consist of compensation of employees, the profits of corporate and unincorporated enterprises, net interest, and the rental income of persons.[12]

Obviously, the use of this latter figure will obviate many of the problems that are inherent in measuring growth in terms of an increase in the gross national product. It would also focus attention on the fact that in many industries our profits have been overstated, and capital is being consumed today in order to make a temporary record. America's industrial might was not established in this fashion.

What is perhaps more important in terms of America's well-being is the increase in our physical facilities that have taken place during the period 1952 through the end of 1960. After all, money is important, but it is still only a means of exchange. All of us require food, homes, schools, telephones, automobiles, and gasoline. A few

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[11] "1947 Statistical Supplement to the Survey of Current Business," U.S. Department of Commerce Bureau of Foreign and Domestic Commerce, 1948, p. 182.

[12] Ibid.

of the salient physical measures of the progress that has been achieved during the past several years are listed in the following chart.

Selected indicators of economic progress

[Millions]

	1953	1959	Percent increase
Number of families owning automobiles [1]	31.0	39.0	25.8
Number of nonfarm owner-occupied dwelling units [2]	22.7	28.0	23.3
Number of homes with television sets [3]	27.7	45.5	64.3
Number of telephones [4]	50.4	70.6	40.1
Steel capacity (net tons) [5]	117.5	147.6	25.6
U.S. petroleum production (barrels) [6]	2,357.0	2,575.0	9.2
Domestic petroleum demand (barrels) [7]	2,775.0	3,439.0	23.9

1 Economic Report of the President transmitted to the Congress, Jan. 20, 1960, p. 137.
2 Ibid., p. 138.
3 Ibid., p. 139.
4 "Historical Statistics of the United States, Colonial Times to 1957," U.S. Bureau of the Census, Washington, D.C., 1960, p. 480. "Statistical Abstract of the United States: 1960," U.S. Bureau of the Census (81st ed.), Washington, D.C., 1960, p. 512.
5 Annual Statistical Report, American Iron and Steel Institute, 1958, New York, pp. 8, 9.
6 "Petroleum Facts and Figures, Centennial Edition 1959," American Petroleum Institute, New York, p. 41. Oil and Gas Journal, the Petroleum Publishing Co., Tulsa, Okla., vol. 59, No. 5, Jan. 30, 1961, p. 121.
7 "Petroleum Facts and Figures," op. cit., p. 209. Oil and Gas Journal, op. cit., vol. 58, No. 4, Jan. 25, 1960, p. 171.

The economic theorists who have prepared the majority's report are so preoccupied with the artificial measures of well-being that they have neglected the actual physical facts of life that determine whether we are moving forward as a country or are losing our position in the race for world leadership. For example, during the course of the hearings by the Joint Economic Committee, testimony was received from Dr. George Cline Smith, vice president and chief economist of the F. W. Dodge Corp. of New York City. There are few more knowledgeable individuals concerned with the construction industry in this country. Dr. Smith testified as follows:

> * * * As I stated to this committee a year ago, a fairly large proportion of consumer spending is not really discretionary. Food, for example, accounts for nearly half of nondurable goods spending and in the services sector, the largest housing expenditure is a purely theoretical concept—the imputed rental value of owner-occupied dwellings.
>
> Few consumers have ever heard of this concept and of course no actual money payment is ever made. Nevertheless, this one item accounts for more than 20 percent of all consumer expenditures for services.[13]

In other words, what Dr. Smith is saying is that the owner of a home who, of course, pays no rent, as he has purchased his dwelling, is earning an imputed rent based on what this dwelling would rent for if it were placed on the rental market. Therefore, the gross national product and national income figures include entirely fictitious data that have no bearing on the real facts of life with which most consumers and voters deal.

13 January 1961 Economic Report of the President and the Economic Situation and Outlook, hearings before the Joint Economic Committee, Congress of the United States, 87th Cong., 1st sess., Feb. 9, 1961, pp. 20–21.

It is important that the Congress clarify these misconceptions that exist between the theories of some academicians and those citizens who are required to earn their living in a normal way and pay their taxes.

3. ACTIONS FOR ECONOMIC RECOVERY AND GROWTH

The majority's report, in dealing with programs for economic recovery and growth, is mainly preoccupied with the role of Government. Our economy has grown to its present position largely because it has harnessed the efforts of individuals under our free enterprise system.

Although lipservice is frequently paid to this theory, there are scant recommendations in the chapter devoted to this subject in the majority's report. On the contrary, it is confined to a recasting of various administration programs, including the extension of temporary unemployment compensation, aid to education, urban renewal, the liberalization of social security, a new health program, assistance for depressed areas, improvements in FHA, and measures dealing with natural resources.

It would be futile to say that none of these measures have merit, but in and of themselves, they cannot bring this Nation to the standard of living which it has a right to enjoy.

An examination of President Eisenhower's Economic Report which was submitted to the Congress on January 18, 1961, reveals a number of factors that might have a far more reaching effect over the long run. Although our society is one in which private enterprise based on risk-taking by capital is the motivating force, there has been little expansion in the profits of those corporations, after the payment of income taxes, that have contributed so much to the growth of our economy in the postwar years.

Taxes

In table C–57 of the President's Economic Report, it shows that the total corporate profits after taxes in 1960 were $23 million.[14] This is approximately what they were in 1950 at the start of the Korean war. In the meantime the national income has risen from $241.9 billion to $418.4 billion, or an increase of 72.9 percent.[15]

If profits are to provide the primary stimulus for capital creation and the impetus to finance new undertakings, there must be a sharp reversal in this trend. For a decade this has been lacking, and it is one of the most serious problems facing our ceonomy at the present time. Yet, it is not even mentioned in the majority's report.

Furthermore, according to those who have endeavored to study this whole area of capital formation, there is little question but that the profits that are reported are vastly overstated inasmuch as depreciation allowances, because of inflation, do not replace those assets that have worn out over the years.

America requires a highly dynamic economy. There are millions of our workers who are employed in the steel industry, in the metalworking industry, and in other crafts that would normally be engaged

[14] Economic Report of the President, January 1961, op. cit., p. 192.
[15] Ibid., p. 138.

in producing the new facilities that a more realistic depreciation allowance in the tax laws would make possible. If those who express such concern for the employment of our citizens and economic well-being in terms of a more productive economy adopted a tried-and-true method of depreciation, more progress would have been made.

Although complete and detailed data of Federal tax receipts by income classes is not available beyond 1957, an examination of the basic allocation of tax receipts toward certain Federal programs is most revealing.

On the expenditure side are listed the items in terms of priority. Interest payments must be met if the Government is to remain solvent. General Government expenditures are shown next; major national security is our next order of priority; international affairs and finance come next; followed by veterans' services and benefits. Then other domestic programs are considered in their order of interest to the Congress, such as agriculture and agricultural resources, labor and welfare, commerce and housing, and natural resources.

On the receipt side are listed the income by source in the following order: First, there is income from corporation income taxes, then excise taxes; followed by estate, gift, customs, and miscellaneous taxes; and then the receipts from the personal income taxes, which are shown in terms of income tax brackets. This table reveals some startling facts. If the first four expenditure items are taken; namely, interest payments, general Government expenses, major national security programs, and international affairs and finance expenditures in the year 1957, we find that they preempted all of the receipts from the corporate income tax, all the excise, estate, and gift taxes, customs and miscellaneous receipts, as well as the receipts from personal individual income taxes down to the $7,000 to $8,000 brackets. By adding the next two priorities of budget expenditures—veterans' services and benefits and agriculture and agricultural resources—we then find the Congress has authorized the use of the receipts from all corporate income taxes, excise, estate, and gift taxes, customs, and miscellaneous receipts, as well as the payments to the Federal Government through personal income taxes down to the $5,000 bracket. Expenditures for labor and welfare, commerce and housing, and natural resources were paid for by taxes received from those citizens with taxable incomes of less than $5,000.

There follows a table which indicates the actual budget expenditures and receipts in 1957, showing the breakdown of individual personal income tax receipts by the various brackets:

	Dollars (billions)	Percent of total
Expenditures:		
Interest	7.3	10.5
General Government	1.8	2.6
Major national security	43.3	62.4
International affairs and finance	2.0	2.9
Veterans' services and benefits	4.8	6.9
Agriculture	4.5	6.5
Labor and welfare	3.0	4.3
Commerce and housing	1.4	2.0
Natural resources	1.3	1.9
Total	69.4	100.0
Receipts:		
Corporation income tax	21.2	30.4
Excise and miscellaneous taxes	14.2	20.4
Individual income tax:		
$100,000 to $1,000,000 and over	1.9	2.7
$50,000 to $100,000	2.2	3.2
$25,000 to $50,000	3.1	4.4
$15,000 to $25,000	2.7	3.9
$10,000 to $15,000	3.9	5.6
$9,000 to $10,000	1.7	2.4
$8,000 to $9,000	2.2	3.2
$7,000 to $8,000	2.8	4.0
$6,000 to $7,000	3.3	4.7
$5,000 to $6,000	3.4	4.9
$4,000 to $5,000	3.2	4.6
$3,000 to $4,000	2.2	3.2
Under $3,000	1.7	2.4
Total	69.7	100.0

NOTE.—Of the $35,000,000,000 derived from the personal income tax, $28,000,000,000 (or 80 percent of the total) was in the personal income tax brackets under $25,000.

Although attention has been focused on the corporate income tax, our present personal income tax structure also has become a bar to new investment in profitmaking job opportunities. In fact, our economy is plagued by double taxation at every point.

Those who invest their savings in American industry so as to produce jobs are not only subject to the corporate income tax but to personal income taxes upon any dividends received. The magnitude of this double taxation is clearly illustrated in the following table.

Taxable income derived entirely from common dividends; no allowance for deductions or personal exemptions:[1]	*Percent of earnings paid in corporate and personal income taxes to the Federal Government*
$2,000	59.7
4,000	60.2
6,000	61.0
8,000	61.8
10,000	62.8
12,000	63.7
14,000	64.7
16,000	65.7
18,000	66.6
20,000	67.5
22,000	68.4
26,000	69.9
32,000	71.8
38,000	73.3
44,000	74.6
50,000	75.8
60,000	77.5
70,000	79.0
80,000	80.2
90,000	81.3
100,000	82.4
150,000	85.9
200,000	87.7

[1] It is assumed that such deductions and exemptions equal the amount of income other than dividends.

If the Congress is to fulfill its mandate of providing a maximum number of opportunities for employment in private enterprise, it must soon initiate genuine tax reform that will not reduce revenues, but, on the contrary, will increase them, as tax rates will not be designed to punish success but rather to stimulate more productive effort.

Housing

It should be noted that the majority's report places undue emphasis on the interest rates on FHA insured loans. In doing so, it completely neglects the fact that Government underwritten mortgages in 1960 totaled $56.3 billion, although all nonfarm properties had mortgage debts of $193.3 billion.[16] In other words, the Government portion of the total was only 29.1 percent.

Depressed areas

The majority's report also endorsed the administration's plans for aid to depressed areas. However, once again it overlooks the fact that many communities that have been able to meet their problems would become depressed if they were forced to absorb the taxes necessary to enable others which have been less prudent to finance their recovery.

Social security

At a time when the needs of mobilizing the resources of the free world are at an all-time high it seems almost incredulous that the majority's report would state that—

> * * * the President's proposals to increase minimum social security benefits to provide for reduced retirement age of men and to increase benefits for widows are not only a humane step toward raising the dignity and level of comfort of our older people, they also offer an opportunity to obtain a large stimulant to consumer demand for each dollar transferred.[17]

During the 86th Congress, a report was submitted by the Subcommittee on Problems of the Aged and Aging of the Committee on Labor and Public Welfare, the chairman of which was the senior Senator from Michigan, Senator McNamara. The majority's report proposed that—

> * * * the subcommittee recommends the establishment of a senior citizens service training program for the purpose of recruiting and training willing and able older persons to serve in specified community activities, the personnel for which are otherwise in short supply.[18]

The individual views filed by Senators Dirksen and Goldwater also supported this same contention. In fact, they said:

> No evidence has been presented to justify new Federal programs to further the employment of personnel who are in short supply. On the contrary, there is every indication that private agencies, the States, and the communities have sufficient incentives to mobilize the resources of those whose

[16] Economic Report of the President, op. cit., p. 181.
[17] 1961 Joint Economic Report, op. cit., p. 10.
[18] "The Aged and the Aging in the United States: A National Problem," report by the Subcommittee on Problems of the Aged and Aging, Committee on Labor and Public Welfare, U.S. Senate, 86th Cong., 2d sess., committee print, 1960, p. 4.

> skills are in great demand. There would be more justification for concern if the majority's report directed its attention to individuals whose skills were not in great demand. It is very difficult to find any justification to establish a new program for those who admittedly are in a position to supply needed services.[19]

There is no indication that increasing social security benefits would actually create any new wealth, and those who are presently gainfully employed, would have to share their income in order to create the additional consumer demand which the majority's report proposes.

Deficit financing

Although it is apparent that the new administration has once again adopted the timeworn axiom of deficit financing, it is amazing that the majority's report finds fault that apparently the deficits planned are not sufficiently large to close the spending gap which it foresees. It states that:

> * * * All of the administration actions taken to date and all of the legislative programs which the President has recommended—including a substantial increase in defense expenditure—are expected to cost $1.3 billion in the fiscal year ending next June, and $3 billion in fiscal 1962. Total budget deficits in these years are expected to be $2.2 billion in fiscal 1961 and $2.8 billion in fiscal 1962.
>
> * * * we cannot help noting that the total effects of all the actions so far taken and proposed will be small as compared to the gap between the Nation's expected economic performance and its economic potential.[20]

All of our experience defies acceptance of these time-worn recommendations which have not proved useful in the past. Future generations of Americans have a right to expect that their Government will meet the problems of our times in a realistic fashion.

Any considered analysis of the problems facing our economy clearly shows that it will be necessary to spend a far larger amount in order to employ our expanding working force. This can only be accomplished through the investment of capital and the provision of jobs that are needed in order to provide us with the goods and services that constitute America's standard of living.

Antitrust

The majority's report also recommends that:

> Finally, we would like, as a minimum, to see a program for accelerated enforcement of the antitrust laws and budgets for the antitrust enforcement agencies which are more realistically related to the magnitude of the tasks these agencies have been given to perform. We believe that dollars spent on effective antitrust are the least costly dollars of all, because dollars spent for this purpose will, in the long run, have the greatest multiplier effect of all in stimulating private eco-

[19] Ibid., p. 180.
[20] 1961 Joint Economic Report, op. cit., p. 11.

> nomic activity, promoting self-adjustments in the economy, and relieving strains on the budgets of Federal, State, and local governments.[21]

On this subject, it is important to note that the most important antitrust actions that have been taken in recent years were initiated by the previous administration. In fact, certain important cases which laid the groundwork for subsequent private treble damage suits may be attributed to the resourcefulness and hard work of the Antitrust Division under its former head, Mr. Bicks.

During the confirmation hearings by the Senate Committee on the Judiciary of the present Attorney General, Robert F. Kennedy, the following pertinent colloquy occurred:

> Senator CARROLL. Mr. Chairman, I previously expressed my opinion, approval of the present Attorney General and his staff. I think he has an excellent record. And as a member of this committee and on several subcommittees, on every occasion when I have called into a different administration, that is, a different political faith, I have had the cooperation by talking either to Bill Rogers or to the Deputy Attorney General, Judge Walsh, or to Robert Bicks.
>
> Would you continue to give that sort of a service to legislators who seek the advice of the Attorney General's Office, to keep a close liaison and a working liaison with the legislative branch?
>
> Mr. KENNEDY. Yes, Senator. I think that it is essential for the success of the Department of Justice, without any question.
>
> Senator CARROLL. Following the line of questioning of Senator Kefauver, Robert Bicks, I believe, is only about 34 years of age. He has had a most excellent record in the field of enforcement and antitrust. Do you intend to pursue that with the same vigor?
>
> Mr. KENNEDY. We do.[22]

President Eisenhower's budget for the fiscal year 1962, submitted to the Congress on January 16, 1961, expressed a desire for an increase in new authorizations for the Antitrust Division. Although actual expenditures in fiscal year 1960 were $4,325,000, President Eisenhower requested that they be increased to $5,322,000 in fiscal 1962.[23]

In this field, it is impossible merely to add personnel. It is necessary that they be trained and that they be thoroughly knowledgeable with regard to the problems and questions with which they deal. It is also futile to institute new cases unless there are sufficient additional judges appointed to expedite the handling of these cases.

Under these circumstances, it would seem that the preceding administration had taken every conceivable step to further the implementation of our antitrust laws which constitute a charter of economic liberties.

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[21] Ibid., p. 41.

[22] Robert F. Kennedy, Attorney-General-designate, hearing before the Committee on the Judiciary, U.S. Senate, 87th Cong., 1st sess., Jan. 13, 1961, pp. 20–21.

[23] The Budget of the U.S. Government for the Fiscal Year Ending June 30, 1962, p. 795.

Summary

After the record of accomplishments that we have achieved over the past 8 years, it is disturbing that the present administration would state in a message to the Congress on the budget and fiscal policy on March 24 that:

> (1) Federal revenue and expenditures levels must be adequate to meet effectively and efficiently those essential needs of the Nation which require public support as well as, or in place of, private effort. * * *

Certainly every member of the Joint Economic Committee has an obligation to determine which functions can better be performed by governmental action in the future than through private enterprise. This is a task for the Congress, and there has been no convincing evidence submitted by the administration that the American economy has proven itself incapable of meeting those tasks which our people expect of it.

4. MONETARY POLICY

The majority's report endeavors to attribute all economic action to expansionist monetary policies. If this theory had been proven correct, then those countries in the Western World—namely, Western Germany, the United Kingdom, and Japan—would now be experiencing economic problems.

The First National City Bank of New York in its March 1958 issue of its Monthly Letter made an extensive and penetrating analysis of the economic problems of Western Germany which had been generally regarded as depressed and needing our aid and assistance. It said:

> The economic choice faced by West Germany, after the currency reform and granting of substantial autonomy in 1948, was a basic one. * * *
>
> The decision to adopt the marktwirtschaft—the free-market economy—has paid off handsomely. West Germany, phenixlike, has risen from the rubble of World War II to economic and financial preeminence in Western Europe—a rise that has been aptly called the German miracle.
>
> This particular miracle lends itself to statistical measurement. * * *
>
> West German workers' real wages (adjusted for price increases) advanced 99 percent between 1948 and 1957. In Britain real wages went up only 11 percent measured from 1946, 2 years earlier, when its postwar expansion began. Industrial production in Germany in 1948–57 soared 254 percent while in the United Kingdom (1946–57) it went up only 70 percent. Per capita output of goods and services (1949–57), in constant prices, rose 115 percent in Germany as against 15 percent in the United Kingdom.
>
> In the early postwar years, of course, West Germany's level of production was small in relation to Britain's so its percentage increases would naturally be larger.
>
> But it is significant that Germany has kept right on progressing at a more rapid rate. Between 1954 and 1957,

gross national product, in real terms, rose more than 25 percent in Germany—as against only 4 percent in the United Kingdom.

In the field of particular industries, there has been similar dramatic improvement. West Germany in the past 7 years has built more housing than the United Kingdom built in 11. Since the population in both countries is the same—about 51 million—per capita housing output in Germany has also run well ahead. Starting from scratch in 1948, West Germany last year had moved up to third place among the world's shipbuilders. In 1948 some 328,000 autos rolled off assembly lines of British factories while only 30,000 were produced in West Germany. Last year German auto output amounted to 950,000 cars—some 100,000 above the United Kingdom's.

In the field of world trade, German exporters, combining high quality with attractive prices, have been able to acquire a growing share of world commerce. While the United Kingdom's share of world exports slipped from 12 percent in 1949 to 10 percent in 1956, Germany's share advanced from 2 percent to 8 percent.

The success of Germany's export drive enable it to nearly triple its imports between 1950 and 1957 and still make solid additions to its gold and foreign exchange holdings. Starting from practically nothing in 1948, these reserves at latest count amounted to $5.7 billion—well over double those of the United Kingdom.

The German mark has become one of the world's most respected currencies. An important reason for this has been Germany's application over the postwar period of orthodox financial policies to contain inflation—i.e., restraint on government spending to produce an overbalanced budget and tight credit policies to limit borrowing and encourage savings. Moreover, German labor leaders, unlike their British counterparts, have exercised restraint in wage demands. Thus, while the cost of living has gone up 44 percent in the United Kingdom since 1950, it has increased only 18 percent in Germany. * * *

In 1948 West German tax rates went as high as 95 percent. However, an elaborate system of special exemptions for saved and invested income largely nullified the impact of these high rates. Beginning in 1950 the rates themselves were gradually revised downward until now the top rate is 55 percent. This compares with a maximum rate of 92½ percent or higher maintained in Great Britain over this period.

Capital investment is the sine qua non of economic expansion. The amount of investment, in turn, depends on incentives and savings—both of which are heavily influenced by the tax system. High tax rates not only blunt the desire to work and to take risks for profit, but they siphon off funds that could otherwise be available to launch new ventures. The figures tell the story: investment in West Germany, in constant prices, nearly tripled between 1949 and 1950. In the United Kingdom in the same period it increased only about one-half.

Dr. Robert G. Wertheimer, of Babson Institute, recently completed a 5-year study of the postwar German tax structure. His statement last month before the House Ways and Means Committee concisely spells out what was accomplished by the German tax reforms:

"Not only did the economy grow more rapidly than ever in a climate of stable prices but total public revenues also expanded and secured a balanced budget. Income-tax reductions set free entrepreneurial initiative which created a flexible economy providing full employment (in spite of the influx of 10 million destitute persons), steadily rising standards of living and a rapidly growing domestic and foreign investment.

"Taxpayers again could show their incomes and profits without the fear of seeing most of them taxed away. The lowering of the tax rates rapidly increased the ability of all classes to save. Institutionalized saving, for example, increased from 4 percent of the disposable income in 1950 to 8 percent in 1955. Business saving in the form of retained profits and depreciation allowances rose even more rapidly. These savings made possible the financing of the German reconstruction without inflation.

"The lesser dependence of the Federal Government on personal income taxation as source of tax revenues also solved the plight of the small businessman by permitting him to keep most of his gross profits as seed capital for expansion. The lower income tax burden stimulated the general willingness and ability of people to take risks and to establish new business or to expand existing ones. Wage earners and the professions also became more productive and were eager to work longer hours, overtime, and on outside projects to expand incomes that would accrue to themselves."

The huge sums poured into new factories, machines, equipment, and processes (gross investment of $50 billion in Germany between 1949 and 1956 as against $43 billion in Britain) played a big role in the phenomenal increase in German worker productivity. Output per man-hour in Germany between 1948 and 1957 increased 116 percent—as against only 37 percent in Britain between 1946 and 1957.

Increases in worker productivity, while heavily influenced by the flow of investment, also depend on other factors; e.g., the rate of modernization of tools and equipment and the general attitude of labor. * * *

One objection often made to the comparison of West Germany and the United Kingdom is the presence for the United Kingdom of a great armaments burden. It should be noted, however, that Germany had more reconstruction to do, relatively speaking, than the United Kingdom. * * *

Peter Thorneycroft, who resigned in January as Chancellor of the Exchequer in a dispute over a continued rise in Government spending, lists the defense burden as only one of the reasons for Britain's financial troubles. The New

York Times of January 24 carried this account of Mr. Thorneycroft's penetrating analysis:

"First we have sought to be a nuclear power, matching missile with missile, and missile with antimissile and with large conventional forces in the Far East, Middle East, and Atlantic.

"At the same time we have sought to maintain a welfare state at as high level, sometimes even at a higher level than the United States. We have been trying to do these things against a background of having to repay debts abroad during the next 8 years at a total equal to the whole of our existing reserves.

"It was not a mean thing to have attempted these things but no politician should be under any illusions as to what it has meant.

"It has meant that for 12 years we have slithered from one crisis to another—sometimes a balance-of-payments crisis, sometimes an exchange crisis, but always it has been a crisis. It has meant a pound sterling which has sunk from 20 shillings to 12 shillings.

"This is not a picture of a nation we would wish to see. It is a picture of a nation in full retreat from its responsibilities. It is the road to ruin."

A number of important lessons can be drawn from the sharply contrasting German and British postwar experiences.

One is the vital role of free enterprise in providing the incentives and the competitive effort which deliver a growing and widely diffused prosperity while preserving individual freedom.

Ludwig Erhard, Germany's Economics Minister and a stanch supporter of the free market economy, pointed this up in the October 28 issue of Time:

"The most successful means for the achievement and retention of prosperity is competition. Only by competition can an economy expand to serve all people, especially in their capacity as consumers, and dissolve all advantages which do not result directly from higher performance. Free competition thus leads to progress and profits for the whole social order."

Another lesson is the clear impetus given to production and workers' rewards by labor policies which do not impede technological progress. German labor's receptive attitude toward industrial innovation has paid off in rapid wage increases times over. * * *

Finally, there is a lesson for socialist planners who, in striving for income equality, use extortionate tax rates to take away income from the gifted, hard-working individual and spread it around to the less fortunate through various government welfare schemes.

Germany, as we have seen, has chosen a different route—one that has yielded more income for everybody. With sharply reduced tax rates and heroic work effort, Germany has achieved unparalleled prosperity.

Germany serves, thus, as a prime example of what Prof. Henry C. Wallich, of Yale University, pointed up in the autumn 1956 issue of the Yale Review:

"If we try to even up income distribution by means of progressive taxation, we reduce savings and curtail investment incentives and so slow down growth. If we want to accelerate growth, we have to accept inequality of income.

"From a dollars-and-cents point of view, it is quite obvious that over a period of years, even those who find themselves at the short end of inequality have more to gain from faster growth than from any conceivable income redistribution. A speedup in real output of only 1 extra percent per year will soon lift even the economically weakest into income brackets to which no amount of redistribution could promote them."

After 3 years it is more than evident that the policies adopted by Chancellor Adenauer and his economic minister, Ludwig Erhard, have not only proved successful, but in fact it has become necessary for our own Government to send its high officials to Germany in order to secure assistance in meeting the needs of defending Western Europe.

On February 6 the administration sent a message to the Congress on "Balance-of-Payments and Gold." It reaffirmed our determination to maintain the U.S. official dollar price of gold at $35 an ounce. However, it also indulged in a number of pious platitudes which would make it virtually impossible to achieve this objective. The administration's message included the following statement:

> * * * Our domestic policies, of government, of business and labor, must be directed to maintaining competitive costs, improving productivity and stabilizing or where possible lowering prices. * * *

It seems difficult to reconcile this worthy objective with the plans that have been proposed to change the Fair Labor Standards Act so as to increase minimum wages and extend their coverage to more workers as well as many other steps that ultimately must be reflected in the prices of all goods and services.

Americans, by and large, have not worked as hard as their counterparts in Western Europe who had the problem of rebuilding a war-torn economy. All of us want more leisure, but the way to achieve this worthy goal is through the traditional American concept of furnishing every worker with additional capital. This can only be accomplished by new incentives for investment and a change in our tax laws.

Although a message has been sent to the Congress on the broad subject of taxes, it only partially deals with the basic problem of meeting underdepreciation for those who must assume the risks of establishing new enterprises. Furthermore, the same message while holding out hope to some would establish new burdens for others and on balance might actually result in a slowing of our national growth rather than in its increase.

On the basis of experience, all of the theorizing that has been so elaborately contrived in the majority's report may be dismissed as an economic exercise of scant importance. It is unfortunate that the experience which is available to all by observing the German economy was not the basis for the programs propounded by President Kennedy and his advisers.

5. BALANCE OF PAYMENTS

The majority's report attempts to eat its cake and have it too. It hopes to expound the theory of low interest rates while at the same time inducing more confidence in the American dollar. Those who are well acquainted with monetary policy know that there are certain inexorable laws that govern the flow of gold between free countries. President Kennedy is to be commended for having stressed his determination to maintain the solvency of our currency and the strength of the dollar. However, mere words will not accomplish these purposes. More appropriate interest rate policies will attract foreign funds to this country and will restore the balance that prevailed for many years when there was no doubt as to the strength and security of our currency.

In an address which was delivered in Pittsburgh on March 21, 1959, I indicated the extreme danger that our country was facing by the continued loss of gold. Again, although 2 years have elapsed, it is worth repeating the statements that were made at that time, as they have equal validity in dealing with the problems that we face at the present time.

> American citizens are not permitted to convert paper dollars into gold; however, foreigners have this opportunity. In recent years we have been providing them with dollar resources to enable them to draw on our gold balances. Unless we maintain competitive prices in world markets and bring about a balance in terms of our international payments our economy is headed for serious trouble.
>
> In 1948 U.S. gold stocks reached a postwar high of $24.6 billions. At the end of last year they stood at $20.6 billions, a decline of $4 billions. The reduction in 1958 alone totaled $2.3 billions. In fact, the monthly figures show a falling gold stock for every month since January 1958. While a $20 billion gold stock provides an adequate base for our currency, it must be self-evident that a decline of about 10 percent a year can no longer continue without completely destroying our own economic system. This, perhaps, is the best way for us to fully appreciate the impact of unsound economic policies, since an excess of demands for dollar payments abroad over purchases from us will sooner or later be reflected in our monetary reserves.[24]

Basically the problem of foreign exchange stems from the fact that our short-term liabilities to foreigners reported by banks have risen by almost 50 percent in the period between December 1956 and January 1961.[25] On the other hand, our long-term claims on foreigners have increased, and coupled with our own substantial gold reserves should enable us to manage our affairs in such a manner that there could be no question as to the strength and stability of our currency.

In order to accomplish this, it will be necessary to reject many attractive proposals that have been advanced for years by those who believe in "money magic."

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[24] Butler, John Marshall, "The Defense of the Free World," Vital Speeches of the Day, vol. XXV, No. 14, May 1, 1959, p. 448.
[25] Federal Reserve Bulletin, vol. 47, No. 3, March 1961, p. 372.

As we face the problems of a troubled world, it becomes even more necessary that we exercise every possible restraint and discretion in handling our own affairs in order that we may provide a bulwark of strength for the free world.

A very careful perusal of the comments and suggestions that have been developed in the majority's report as well as the extensive testimony by economists and experts does not alter the economic facts as they were presented in Pittsburgh in 1959. Either we are sincere in our determination to defend the integrity of the dollar, or we are merely indulging in expounding words and ideas without any regard for the sacrifices that their implementation will require.

6. FEDERAL BUDGET

The majority's report indulges in fanciful estimates of receipts and expenditures for the coming fiscal year. However, there is nothing in its report which indicates the true nature of the problems that we face in preserving free, private enterprise in the United States as was stipulated in the Employment Act of 1946.

President Eisenhower's budget receipts for fiscal 1962 were estimated to total $82.3 billion.[26] Over and above this amount there were trust fund receipts of $25.2 million in order to finance social security, the highway fund, Federal employees retirement, railroad retirement, and veterans' life insurance, as well as other trust funds.[27]

Actually, all of these expenditures involve the collection of taxes from the American people, and they total more than $107.5 billion. On the basis of 1959 data for expenditures by State and local governments, there will probably be new obligations in this area totaling $50 billion in fiscal 1962.

The total cost of Government is approximately $157.5 billion. If this is compared with the national income estimates for 1960 of $418.4 billion, it appears that Government is absorbing 37.6 percent of the earnings of the American people.[28] On the other hand, this only leaves 62.4 percent of our national income for investment in private enterprise as well as for all of our personal needs. A serious question is raised as to whether it is possible to operate a private enterprise economy under such conditions.

At this time it seems appropriate to quote once again from a distinguished economist, Mr. Colin C. Clark, presently director of research for the Econometric Institute, Inc. Mr. Clark stated that:

> I first reached this conclusion about 25 percent of the national income's being the safe limit for taxation in an article published in the Economic Journal in 1945. And it is an interesting point that the editor of the Economic Journal who published the article was Lord Keynes, and in addition he wrote me a personal letter in 1944 in which he said that he agreed with my conclusions. In fact, during the last years of his life Keynes went out of his way to say that he himself was not a Keynesian, and he did not agree with the ideas which were being advocated in his name.[29]

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[26] 1962 Federal Budget in Brief, Bureau of the Budget, Executive Office of the President, p. 9.
[27] Ibid., p. 48.
[28] Economic Report of the President, January 1961, op. cit., p. 138.
[29] 1960 Joint Economic Report, Report of the Joint Economic Committee, Congress of the United States, on the January 1960 Economic Report of the President, 86th Cong., 2d sess., Rept. 1152, Feb. 29, 1960, p. 82.

In spite of the fact that we are already approaching a perilous point in terms of maintaining a private enterprise economy, the administration has recommended for nondefense purposes a net increase over the budget proposed by President Eisenhower of $2.7 billion.[30] On March 28, the administration in a special message confined to the defense budget recommended a further increase in appropriations and obligational authority of $1,954 million.[31]

In other words our budget and obligationary authority as recommended by President Kennedy total $85.5 billion, or $4.6 billion more than the Eisenhower budget, which represents a startling increase during a period of approximately 90 days. If this trend continues, there will be serious problems ahead for the American economy.

Obviously, any program which has been underway for a long period of time cannot be reduced drastically without undue suffering. However, it is imperative that our national income be increased through every incentive for more productivity and that every new spending program be examined with the care that befits the situations in which we now find ourselves.

7. FISCAL POLICIES

The minority takes strong exception to the views expressed that a balanced budget is incompatible with a sustained economic growth. This is a thesis that has been advanced repeatedly by the majority members of this joint committee. However, there is no convincing proof that it would bring about a return of prosperity or provide jobs for those now unemployed.

At least one thing is clear: If these policies had been adopted during the past 8 years, our present gold situation would be catastrophic, and there is no evidence whatsoever to support the theory that deficit financing will create jobs. In fact, it was tried repeatedly through the New Deal years, and it was found wanting until war and the needs of mobilization once again reactivated our economy.

It is difficult to find a stronger tribute to the success of the policies that have been followed during the past 8 years than the fact that unemployment has been maintained nationally at a fairly low level without creating a serious budget deficit. Any tendency to reverse this trend would be a marked disservice to all Americans and would jeopardize the confidence of foreigners in our currency and in the statements of our leaders as to our economic policy.

8. TAX REFORMS

It has long been the view of many members of the Joint Economic Committee that tax reform is the most important goal before the American people. Hence, we applaud the statement by President Kennedy in his "Message on Taxation" sent to the Congress on April 20 to the effect that:

> I am directing the Secretary of the Treasury, building on recent tax studies of the Congress, to undertake the research and preparation of a comprehensive tax reform program to be placed before the next session of the Congress.

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[30] "January 1961 Economic Report of the President and the Economic Situation and Outlook," hearings before the Joint Economic Committee, op. cit., Mar. 27, 1961, p. 513.

[31] The White House, "Special Message on Defense Budget," delivered to the Congress of the United States, Mar. 28, 1961.

Although tax relief is urgently needed, it is imperative that any action that is taken be well considered, and it should not be hastily drawn. We are, therefore, more than willing to see major revision of the Revenue Code deferred to the next session of the 87th Congress.

In this same "Message on Taxation" the President made a number of other proposals, and presumably he expected that they would be enacted into law by the present Congress. First, he proposed "a tax incentive for modernization and expansion." This euphemistic phrase has great appeal, but it falls short of meeting the needs of American industry in maintaining its physical plant and also its competitive position in terms of our relations with other countries of the world.

The First National City Bank of New York, in its monthly letter of September 1960, outlined the problem which confronts American industry as follows:

> The importance of liberalized depreciation has been recognized all over the world because of its influence on investment which in turn is the core of the growth process. Business finances capital investment from a variety of sources—sales of stock, borrowings, retained earnings, and depreciation allowances. The biggest source is depreciation which, if earned, gives back to a company a portion of its past investments. The more freedom a company has in the timing of depreciation charges, the more opportunity it has to grow. One of the considerations dictating liberalization of depreciation rules is the fact that, in this age of dynamic change mixed up with inflation, large amounts of capital, beyond depreciation allowances, must be poured into a company to replace its plant and keep up with the times.
>
> Industrial firms find that allowances made for depreciation in the past two decades fall far short of meeting replacement needs at current inflated costs. George Terborgh, research director of the Machinery and Allied Products Institute, estimates that costs of replacement are outrunning depreciation allowances in American industry by $6 to $8 billion a year. A distinguished accountant, Prof. William A. Paton of Michigan, has put the total bill for capital replacement not covered by tax writeoffs at $40 to $50 billion since World War II. Testifying before the Ways and Means Committee last fall, he said:
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> "Plant assets don't grow on the bushes; they must be provided either from business revenues or from the additional savings of investors. And it seems very clear to me that restricting the depreciation deductions to the number of dollars invested, regardless of dates of acquisition and the varying values of the dollars, makes it impossible to replace the plant capacity consumed, to say nothing of expansion of facilities, without drawing on net earnings as reported or raising additional capital."
>
> Another factor is the increased rate of obsolescence. With the transformation of manufacturing methods, and introduction of new products developed out of research, capital equipment gets out of date or becomes economically useless long before it wears out physically. A survey by

McGraw-Hill indicates that the costs of replacing facilities that are presently obsolete would amount to about $95 billion. And the rate of obsolescence is expected to increase in coming years. One expert has forecast that machine tools installed in the next decade will typically become obsolete within 5 years; in the 1940's, machine tools could be used twice as long before becoming outdated.[32]

In sharp contrast to our policies are those which have been followed by other leading industrial nations which were also set forth in this same monthly letter of the First National City Bank of New York as follows: [33]

United Kingdom

Though the United Kingdom is regarded as having the least liberal depreciation allowances of the European countries, its practices are far more encouraging for private investment than those of the United States. Basic rates, developed in consultation with various trade associations, are set at 7½, 10, 12½, and 20 percent for various categories of industrial machinery and equipment. Applied on a declining-balance basis, they are increased by one-fourth; this makes the effective rates 9⅜, 12½, 15⅝, and 25 percent. Individual companies, it should be noted, are not firmly bound to these schedules and may be able to justify higher rates.

Over and above the regular rates, additional tax inducements to investment are offered—"investment allowances" and "initial allowances." An investment allowance is given over and above the original cost which can be recovered in full irrespective of the investment allowance. An initial allowance is available, in the first year, against the original cost, in addition to the regular allowance. In subsequent years the regular allowances are applied to the cost thus reduced. In the years since the war there have been numerous changes in these two allowances, intended to achieve both counter-cyclical stabilization and long-run increases in investment.

Among the combined allowances established in 1959 and unchanged in the April 1960 budget, is an investment allowance of 20 percent plus an initial allowance of 10 percent on new machinery and plant. For machinery receiving the basic 12½-percent rate, this gives a total allowance in the year of acquisition of 45⅝ percent, made up on the declining balance basis as follows: 20 percent investment allowance, 10 percent initial allowance, and 15⅝ percent regular depreciation based on 1¼ times 12½ percent. If the basic rate were 10 percent, the first year allowance would still be 42½ percent.

In sum, the most striking features of British depreciation practice are the use of broad categories of depreciable property and the extremely liberal allowances in the year of acquisition.

France

On the whole, depreciation practices in France are more liberal than in the United Kingdom. France, besides providing initial allowances for new investment, permits more rapid rates of writeoff and also revaluation of property to compensate for past inflations.

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[32] First National City Bank Monthly Letter, "Business and Economic Conditions," September 1960, pp. 102–103.

[33] Adapted from a private memorandum prepared by Prof. Dan Throop Smith of the Harvard Graduate School of Business Administration and formerly Deputy to the Secretary of the U.S. Treasury (in charge of tax policy).

Allowable rates of depreciation for each individual company are subject to determination on the basis of the particular operation. But tax officials have published rates appropriate for various industries that have been agreed upon after discussion with trade associations. These rates can be counted on as acceptable to tax officials. Ordinary machinery is given a 15 percent rate on a straight line basis, a rate of writeoff consistent with a life of less than 7 years. When such machinery is used for multiple-shift operations, the rate may be increased to 20 or 30 percent.

On top of this, a double allowance is given in the first year. For ordinary machinery, this means a 30 percent allowance with the remaining 70 percent depreciable at 15 percent of original cost and written off in less than 5 more years. Heavy machinery, such as steel mill equipment, is given a 10 percent rate, also with a double allowance in the first year. In addition, for various classes of machinery, an initial allowance of 10 percent is given.

Last December, France went even further by authorizing depreciation on a declining-balance basis. Under this system, straight line rates may be increased by 1½ times for property with a life of 3 or 4 years, doubled for a life of 5 or 6 years, and raised by 2½ times for lives of more than 6 years. If used, these higher rates supplant the initial allowance and double allowance in the first year. They result in a lower deduction in the first year, but higher allowances in the second and third years. Under the straight line system, property with a 10 percent rate would get 28 percent of cost written off in the first year (10 percent initial allowance plus double the 9 percent allowed on the balance of cost spread over 10 years) and 9 percent in each succeeding year. Under the new method, however, the allowances in the first 3 years would be 25, 18.8, and 14 percent, respectively, or a total of 57.8 percent in the first 3 years, compared with 46 percent under the previous method.

Aside from rapid recovery of original costs, France also permits revaluation of assets by applying factors ranging from 1.0 for assets acquired in 1959 to 234.0 for assets dating back to 1914 and earlier, and in the case of inventory from 1.0 for 1959 to 388.9 dating back to 1914 and prior years. These factors are applied to both historic cost and annual depreciation allowances since the date of acquisition. Even property written off completely can have a restored value for additional depreciation.

Germany

Tax policies to encourage private enterprise, beginning in 1948, played a central role in the dazzling recovery of the German economy. Apart from easier rates of tax than we apply, the German industry is permitted more rapid writeoff of new plant.

Following the Currency Reform Act in 1948, revaluation of assets was authorized for depreciation and tax purposes and special initial allowances for new equipment, running up to 50 percent, were brought into play for a number of years. These have now lapsed.

Regular depreciation rates in Germany are determined in the light of the particular circumstances of each taxpayer, but 2 years ago a series of allowable rates were published as guidelines. Taxpayers can count on these rates being accepted, but they may use even higher rates if they can justify them. For machinery, a basic rate of 10 percent is common for straightline depreciation. But under a declining-balance formula, this may be increased by a multiplier of 2½, thus giving a writeoff of 25 percent in the first year and about 58 percent of cost in the initial 3 years. The Government recently has recommended to the legislature that the multiplier be pared to 2 on the idea that the allowance is unnecessarily generous and has contributed to excessive pressure on capital goods industry.

Sweden

Wide leeway in the timing of deductions has long been a distinctive feature of depreciation practice in Sweden. Up to 1956, business was was permitted complete freedom; any amount up to the full cost of plant, machinery, and equipment was allowed in any year at the taxpayer's discretion. This system of "free" depreciation was regarded as the ultimate in liberality.

The freedom was somewhat curtailed 4 years ago. Two alternative methods are now used: depreciation according to plan and depreciation on a bookkeeping basis. Basically, a write off rate of 20 percent (consistent with a 5-year life) can be applied to the historic cost of plant and equipment. On the bookkeeping basis, the taxpayer may write off 30 percent of book value at the beginning of the year, plus the cost of acquisitions and minus any realizations during the year. If this formula fails to yield a write off of 20 percent, then the taxpayer may use 20 percent of historic cost as his depreciation rate. The principal requirement in using this formula is that the taxpayer use a method of bookkeeping that will permit gains from sales of depreciated assets to be brought into account.

But beyond liberal depreciation of actual cost, Sweden permits a tax deduction of up to 40 percent of net income for reserves to stabilize economic activity. Forty percent of the amount deducted (or 16 percent of profits) must be invested with the central bank, for use as permitted depending on the level of economic activity and employment. The company is free to use the rest of the money as it sees fit.

Such liberal treatment of investment does not represent favored treatment of "big business." Sweden's programs were all developed under a labor-socialist government with the aim of increasing productivity through more investment.

Belgium, the Netherlands, and Italy

In Belgium, assets for depreciation purposes are grouped in broad categories with rates ranging from 10 to 25 percent for machinery. In 1954–56 and again since 1959, special investment allowances of up to 30 percent have been granted. These have been limited to new ventures or very large expansions of existing plants.

In the Netherlands, both initial and investment allowances are used to spur investment. Since 1949, initial allowances have been 33⅓ percent with varying requirements for spreading the allowances over the early years. Both the initial allowance and regular depreciation may be taken from the time that a contract is placed, not, as with most countries, when it is actually put to use. Depreciation allowances which are not covered by profits in any one year may be taken in succeeding years.

In Italy, the rates of depreciation as laid down by the tax authorities vary from 3 to 20 percent per year. However, accelerated depreciation on new plant is provided for by a form of initial allowance which reduces the normal depreciation period by two-fifths. This 40 percent "initial" allowance may be spread over the first 4 years of the life of the asset (subject to a 15 percent maximum in any one year) in addition to regular depreciation.[34]

It is a source of satisfaction that at least the problem of depreciation has been recognized by the new administration, but it is most unlikely that the proposals that have been advanced will meet the needs that are so urgent in establishing our maximum industrial potential.

Still another phase of President Kennedy's "Message on Taxation" deals with the tax treatment of foreign income. There are many important considerations involving our relations with other countries and the reciprocal treatment which we may expect if we alter the tax treatment afforded American subsidiaries operating abroad unilaterally on the basis advocated by President Kennedy.

There are numerous other methods by which it would be possible for us to stimulate foreign investment without at the same time incurring any discrimination. Among them is one proposed by Dr. Robert Strausz-Hupe, director of the Foreign Policy Research Institute at the University of Pennsylvania, before the Boggs committee in December of 1958. He stated that:

> Foreign subsidiaries of American industrial enterprises are seldom completely independent operations. Even though they may produce goods especially designed for the local market, they remain, and it is economic for them to do so, dependent on the parent company for many technical and managerial services. The parent company may even provide distribution services for the product in other foreign markets. These integrated international operations contribute strength and stability to the domestic units of industry in the underdeveloped countries—a particularly important factor in this period of rapid technological progress and widespread economic dislocation.
>
> Almost without exception, local capital has not been permitted to participate in the foreign subsidiaries established by American companies. Although recognized as politically desirable for the parent company and economically desirable for the country concerned, local stockholders can create management problems which are insurmountable. The presence of local investment in a subsidiary introduces problems of prices for technical services, use of patents, remuneration of foreign personnel, territory to be served, pricing on interdivisional sales, dividend and reinvestment decisions and other matters.
>
> The interests of local shareholders and the parent company will frequently differ, reducing the flexibility of the parent company. In cases, where parent companies have taken a minority interest in a foreign operation, price fixing, territorial limitations and other undesirable arrangements have been present.
>
> A completely common and beneficial interest between local and foreign stockholders could be established if parent company equity stock could be sold to local stockholders.
>
> The advantages of such a system are:

[34] Ibid., pp. 104–105.

"During the initial starting period of a new operation, earnings might be low; for a much longer period earnings might be needed for expansion and thus not available for dividends. In contrast, parent company stock has immediate dividend potential. Furthermore, parent company dividends, being in foreign currency, would immediately add to the Nation's foreign credit balance, whereas direct benefits from the new operation might be considerably delayed. Whenever foreign dividend payments were not needed to meet other obligations, they could be used to acquire more parent company stock.

"In starting a new operation or expanding an existing one, parent company stock could be sold for local currency to cover all local costs such as land, buildings, services, etc., and to provide operating capital. In fact, if at the time of organization such dividends were pledged to the acquisition of additional parent company stock, such stock might be set aside as in an option plan at a fixed price for future delivery. This arrangement might not come under the jurisdiction of exchange controls, if any existed, as no income is available to the local stockholder until the purchase has been completed. Parent company investment in foreign currency could be limited to those items for which foreign exchange is required, such as equipment and materials from foreign sources. While it is true that the use of local capital would reduce the amount of foreign capital made immediately available to the Nation, it would reduce a future obligation incidental to the export of earnings or the repatriation of original capital.

"In most cases, a manufacturing operation with considerable local participation could be established without cost to the nation in foreign exchange. Ultimately, the remittance of dividends would require the loss of some foreign exchange, but this would be offset partially by foreign dividends received.

"By participation in the parent company, local stockholders would have benefits comparable to a 'diversity of investment' and would be less subject to local economic cycles. If such international investment could be carried far enough, it would have a stabilizing effect on the whole world economy.

"Through acquisition of parent company stock, either through providing local capital when needed or the use of foreign exchange balances when available, local participation can ultimately become sufficient to absorb the average local profits. As previously mentioned, parent company stocks have immediate dividend potential and such dividends are in foreign exchange. If not otherwise needed, they could be used to acquire more parent company stock. In contrast, if local investment is confined to the local operation, dividends may be long deferred, will be in local currency, and will always be entirely dependent on the local economy." [35]

Once again, before accepting the views advanced in the President's "Message on Taxation," it is well to examine the level of taxation imposed by central governments on corporate profits distributed as dividends, as shown in the following table:

	Maximum rate paid and withheld by corporation	Credit allowed individual shareholder
	Percent	*Percent*
France	62	[1 2] 24
Netherlands	54.95	[2] 15
United States	52	4
United Kingdom	51.25	[3] 38.75
Japan	50.90	30
Canada	50	20
Belgium	45.31	[2] 30
Germany	[4] 42.58	[2] 25
Sweden	40	0
Australia	40	0
Switzerland	35.60	[2] 27
Norway	30	0
Union of South Africa	25	33.33–100
Italy	20	8

[1] Credit is 8 percent against taxable income and 16 percent against personal tax liability.
[2] Deducted at source and credited to individual shareholder.
[3] The individual, if subject to surtax rates on his personal income tax return, must, however, pay the surtax on the gross dividend actually declared rather than the net dividend actually received.
[4] Ignoring the variable effect on the tax base of property tax on net worth. First National City Bank Monthly Letter, "Business and Economic Conditions," January 1961, p. 7.

Also, in order to complete our perspective of the problems of a potential corporate investor, it is well to review the maximum marginal rates of personal income taxation imposed by central governments elsewhere, as indicated below:

	Percent
United States	91
United Kingdom	88.75
Puerto Rico	82.95
Canada	80
Ireland	77.50
France	[1] 73
Netherlands	72.50
Japan	70
Australia	66.67
Belgium	65
Sweden	65
Greece	[2] 63
Austria	59.34
Italy	58
Mexico	[3] 33–55
Norway	55
Germany	53
Denmark	[4] 52.38
Union of South Africa	47.50
Switzerland	8

[1] Includes an 8-percent complementary tax on nonwage income.
[2] Includes a 3-percent tax on investment income.
[3] Tax rate applicable; depends upon source of income.
[4] Effective maximum, allowing for deductibility of previous year's tax, where income is stable. Ibid.

Unless the rates of taxation prevailing in the United States are reduced, it is impossible to adopt policies to maximize the productive abilities of the American economy.

[15] "International Industrial Investment," a statement by Dr. Robert Strausz-Hupe, director, Foreign Policy Research Institute, University of Pennsylvania, prepared for the Subcommittee on Customs, Tariffs, and Reciprocal Trade Agreements of the House Ways and Means Committee.

In this same message, President Kennedy once again reiterated his recommendation that withholding taxes be imposed on interest and dividends and that the 4-percent dividend credit enacted by the Congress in the 1954 Tax Code should be abolished. Each of these points was discussed at length by former Under Secretary of the Treasury, Fred C. Scribner, Jr., whose ideas were quoted in the individual views of Senator John Marshall Butler in the report on "Employment, Growth, and Price Levels" of the Joint Economic Committee issued on January 26, 1960. Under Secretary Scribner stated that—

> * * * 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 nonreported 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 considera-

tion, 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.[36]

He also said:

* * * 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 becauxe 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.[37]

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[36] "Employment, Growth, and Price Levels," report of the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess., Rept. No. 1043, Jan. 26, 1960, pp. 116–117.
[37] Ibid., p. 119.

President Kennedy made one further suggestion which was also discussed by Secretary Scribner, namely:

> * * * 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 nightclubs, theaters, sporting events, or other places of public amusement. The bill would also have disallowed expenditures for the maintenance of 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 ex-

> penses 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.[38]

Every Member of the Congress has an obligation to see that the laws of the land are enforced impartially and fairly. Insofar as this message on taxation is concerned with furthering this objective, there can be no quarrel with it. However, the underlying premises of a steeply progressive and punitive income tax structure are not accepted as in the best interest of the average person in terms of stimulating our economy to produce more jobs and a higher standard of living for all.

9. CONCLUSIONS

The legislation which requires that the Congress file an economic report was originally proposed at a time when our Nation was at war, and there were grave doubts as to whether we would be able to make the transition to a peacetime economy. Many prophets of doom and gloom were certain that we would always have at least 10 million people unemployed. During this period, former Vice President Henry Wallace presented a blueprint to produce 60 million jobs. This goal was achieved by 1951 and it has been exceeded in every year since that time.

The Employment Act of 1946 was originally introduced as the full employment bill of 1945. There were many proponents who believed that it was the responsibility of the Federal Government to make a job for everyone regardless of the consequences to our form of government or our way of life. Fortunately for all concerned, there were enough wise Members of the Congress to amend this measure so that it would also include as a part of its declaration of policy the following language:

> * * * 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 * * * for those able, willing, and seeking to work, and to promote maximum

[38] Ibid., pp. 117-118.

employment, production, and purchasing power.[39] [Italic added.]

There are some who undoubtedly believe that the inclusion of this language represented a retreat from the principles that has been sponsored by the proponents of this legislation. On the other hand, the first Council of Economic Advisers, of which Edwin G. Nourse was the Chairman, made a report to President Truman on December 18, 1946. This statement had the concurrence of Leon G. Keyserling and John D. Clark. They said:

> The measure which finally emerged from this process of legislative coalition was a well-balanced and carefully drawn piece of legislation. Although frequently referred to as a "much watered-down version" of the original proposal, it is in fact a broad enabling act of great flexibility as well as vigor. It is far from being a meaningless verbal compromise. The present act does not make any particular method mandatory. Nor does it legislate any specific remedy into use. Instead, the law states quite fully and clearly the general purpose and intention of the Congress and lays down the principle that the executive and the legislature shall seek diligently for any method which, in the peculiar circumstances of any given situation, appears to them to be sound and to promise helpful results. It is hard to see how a measure can be regarded as "watered down" which so clearly states the "responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy * * * to coordinate and utilize all its plans, functions, and resources" for the stated purposes of the act—maximum production, employment, and purchasing power.
>
> As a result of lengthy deliberations over the bill, and the collaborative process of drafting, many individuals and groups gained a profound understanding of the problem and the purposes of the act. Furthermore, such persons and groups succeeded in removing ambiguities of language or in the elimination of what they regarded as dangerous or doubtful provisions. Beyond this, these participants contributed to the final draft such ideas or phraseology that in many cases they not merely ceased to oppose the bill but actually became supporters of the measure which was finally adopted. Thus, the Employment Act of 1946 has an extraordianry amount of friendly interest and approval among the public, and it was passed in the House of Representatives by a vote of 320 to 84 and in the Senate by a unanimous voice vote. In signing the act on February 20, President Truman commented:
>
> "In enacting this legislation, the Congress and the President are responding to an overwhelming demand of the people. The legislation gives expression to a deep-seated desire for a conscious and positive attack upon the ever-recurring problems of mass unemployment and ruinous depression. * * * I am happy that the Senate adopted

[39] First Annual Report to the President by the Council of Economic Advisers, December 1946, p. 22.

this legislation unanimously, the House of Representatives by a large majority. * * *

"The Employment Act of 1946 is not the end of the road, but rather the beginning. It is a commitment by the Government to the people—a commitment to take any and all of the measures necessary for a healthy economy, one that provides opportunities for those able, willing, and seeking to work. We shall all try to honor that commitment." [40]

Chairman Nourse and his associates also said:

This broad concept of national economic life we find to be written securely into the Employment Act of 1946. The act states clearly at the very outset that the objectives of maximum employment, production and purchasing power are to be pursued in ways "calculated to foster and promote free competitive enterprise and the general welfare." But, at the same time, there is a "continuing policy and responsibility of the Federal Government." This is not an intention to create jobs artifically or pad the Government payroll, but "to create and maintain conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work." It accepts the well-known fact that Americans by and large are a nation of businessmen, whether in overalls or white collars, alert to see and skillful to develop opportunities for better income. It assumes also something that is not as yet proved as fully as we might wish. They still have to demonstrate that, in claiming for themselves the right to embrace these opportunities, they display an adequate understanding of fundamental economic forces and of how to work out such mutual wage, price, and profit relationships as will correlate an efficient system of production with a fluid and vigorous market. It is an integrated consideration of private and public functioning in the economic sphere that the act is designed to promote.

To achieve such a system of broad-viewed organization of the Nation's business, with the maximum of individual freedom but the degree of self- and group-discipline necessary for high efficiency is the challenge of our democratic system. The war experience gave us a great lesson as to the productive power we develop when private enterprise is harnessed to a unified national effort. The Employment Act of 1946 enunciates sustained peacetime utilization of our productive resources as a no less important national purpose and proposes a concerted effort to develop an equally good coordination of effort among all agencies, without the legal controls which were both endurable and necessary in the face of our war danger. The Congress in this act did not either exclude Government nor put exclusive reliance on this single means of attacking the problem of stabilizing the practically attainable maximum of production or utilization of the Nation's resources. Far from shutting out other measures or means of approach, the act plainly invites the Council to pursue its

[40] Ibid., p. 3.

> studies and make its recommendations "with the assistance and cooperation of industry, agriculture, labor, and State and local governments" and to proceed "in a manner calculated to foster and promote free competitive enterprise and the general welfare." [41]

Based on the statements of those who were first charged with the administration of this act, it is quite clear that it was never the intention of the Congress to have the Federal Government absorb the productive efforts of America's working people. On the contrary, our Government exists for its citizens. This is in sharp contradiction to the totalitarian system of production that has been followed in many other countries. As we start a new administration, it is to be devoutly hoped that these precepts will be followed and that we will not lose the priceless heritage that has been bequeathed to this generation by the Founding Fathers.

[41] Ibid., pp. 15-16.

INDIVIDUAL VIEWS OF SENATOR JACOB K. JAVITS

I find much to be commended in the spirit of the minority views and consider them superior, in practical applicability, to the majority views. Especially is this true in respect of the consistently pessimistic picture presented by the administration on the place and vitality in the national scene of our private economic system and in the majority's main reliance on public investment as the means to accelerate productivity and growth. I believe, however, that both the majority and minority views do not give enough weight to what should be the main objective of this report. They fail to present a grand design to meet the challenge to our economy of the major Communist economic offensive now in progress.

A statement in the Christian Science Monitor of March 22 sums up the challenge we face:

> * * * on the industrial front, in specialized and concentrated areas of power, the U.S.S.R. is forging ahead. It is using its concentrated industrial power as an instrument of economic competition in the world, as a means of bringing weak nations into its industrial orbit * * *. Furthermore, the U.S.S.R. uses its need for industrial products and raw materials as a means of currying favor with weak nations. It has developed a credit system to enable them to "buy" Soviet goods, and it uses its credit, barter, and industrial system to knit weak economies to its own. This is a practice also of Communist China.

Eliminating inefficiency and impediments to productivity in the private economy as counseled by the minority is sounder than counting on Federal Government investment to act as the basic stimulant to productive growth—though public investment areas are an essential element; but neither represents a national economic strategy in the development and coordination of which the Federal Government must have a vital part. The Eisenhower administration recognized this need in its Commission on National Goals.

The automatic adjustment of the economy theory alone is not adequate to the problems and responsibilities we have today, nor to the acceleration of timing brought on by the Communist economic offensive—we need government-business coordination to make our economy operate to produce enough and in the right lines to meet our economic responsibilities in the public interest. I am convinced that the techniques to achieve this purpose are available without such Federal Government direction and control as will seriously endanger individual freedom and it is this concept which should be the basis for our report and to which I shall endeavor to contribute in these additional views.

Great anxiety has been spread in our country about the way in which to meet the Communist challenge of aggression, infiltration, and subversion, and some have counseled adopting the same methods in the cause of freedom. Certainly, defense against these methods may on occasion involve forceful means, but to adopt the Communist techniques would only result in our surrendering the decisive strengths of our own. Our strength is production based on the dignity of the individual and on the good faith of credit. We have overwhelming economic power to make this principle good in terms of the well-being of peoples in the neutralist areas and in the areas, newly self-governing, which will determine which way the world goes. Our Government's policy must be the recognition of this essential base for the free world's success, and the determination to marshal our resources, public and private, with the boldness, vision, and discipline required for their effective utilization for this grand design—and for their coordination with the similar resources of the other leading industrial nations for the same purpose—as, for example, in the newly organizing 20-nation OECD (Organization for Economic Cooperation and Development). Nothing less will do, and nothing less can be justified in the name of the New Frontier or any other slogan for an American administration which wants to qualify for the job the people have given it.

The basic problem of our country is to effect an adequate mobilization of our resources, public and private, to support our role for effective peace leadership in the free world and for the development, proportioned to this leadership, of our American society. The difficulty with the administration's approach is its emphasis on public investment on a forced draft basis in order to meet a recession emergency, without adequate regard either to the phasing out of temporary, antirecession programs or to the overall posture of the American economy in terms of our responsibilities and opportunities.

The testimony before the Joint Economic Committee by the Council of Economic Advisers, the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Director of the Bureau of the Budget, and other high administration officials made it clear that we have been in a real recession, and that we must act accordingly. But let us not so overstate the problem as to undermine confiedence in the economic system itself. Let Americans know the truth; but let us not leave them bewildered.

We have been in a real recession; but conditions are very far from being the worst since the great depression of the 1930's, as one administration spokesman has said. Nor is it necessary to make a partisan comparison between the 1947 to 1953 and 1953 to 1960 periods, by not making clear that the trough of the 1949 to 1950 recession was sandwiched in between two boom periods—the first caused by the pentup demand after World War II and the second by the Korean war.

On the basis of unemployment and initial balance-of-payments figures, the current recession appears to approximate conditions of the 1958 recession. It is not as bad as the 1949 recession and certainly does not resemble the depression conditions of the 1930's. Unemployment is the key of today's recession and imbalanced international payments were its complication, until the first quarter of 1961 when the latter substantially improved.

Notwithstanding, continued high unemployment and a failure to fully utilize our economic potential, there are also many indications which were brought out during the hearings, that the worst part of the recession had been reached and that the economy was on the upswing. It is unfortunate that the administration appeared to have omitted, in its analyses of the recession before this committee and elsewhere, the strong factors of the economy which had served to lessen the impact on the public of the adverse economic conditions which have existed. For while I do not feel that we can be talked into a recession, or talked out of recovery, I do feel it would have been a far healthier approach for the administration to present a less-colored picture of our economic situation.

It is not too early to sound a warning, just as warnings are being sounded on Presidential appointments—warnings that we should not permit the "honeymoon" period of the new administration to encourage improvidence. As Dr. Burns stated in his speech at the 10th Annual Business Economists Conference of the University of Chicago at Chicago on April 21, 1961:

> I believe that the mildness of the recent recession supports the thesis that the underlying forces of economic expansion are strong and that they have of late been only temporarily suppressed. I believe that signs of economic recovery are already here and are rapidly multiplying. In view of this fact and in view also of the substantial increases of Federal spending that were initiated in the closing months of the Eisenhower administration and the further increases that have been set in motion by President Kennedy, I think that we would be courting inflation and a gold crisis if we now arranged new governmental spending programs so that they would mature when the economy is already advancing without them.

The constructive opposition has a duty to oppose when opposition is needed, to suggest new initiatives or feasible alternatives that can do the job better, and to support what deserves to be supported even when the administration may not have that support within its own party.

The real issue is in the majority's position that the main reliance for increasing economic growth will be on Federal Government action rather than on incentives to the private economic system and leadership by Government. Federal Reserve Chairman, William McChesney Martin, and Secretary of the Treasury, Douglas Dillon, have both made this point in their recent testimony before the committee.

The fundamental differences between the Democratic national administration and what I consider to be a proper Republican position, become evident in the following positive programs:

1. A U.S. productivity drive is essential. Step 1 is to increase our productivity through a more rapid modernization of our industrial plant which during the past 50 years has actually been aging perceptibly because of inadequate investment in new capital equipment and facilities. A 1959 McGraw Hill publications survey shows that one-third of our over $300 billion industrial plant is becoming obsolescent and depreciation allowances lag $4 to $6 billion a year behind our replacement needs. The Kennedy proposals for "tax credits" are estimated by administration spokesmen to provide incentives for enough new investment to make up only about one-half of this lag.

We provided for an increase in the minimum wage during this session; then surely in view of world competition, a productivity drive is vital.

President Kennedy has proposed a program of tax incentives to stimulate investment in plant and equipment. Such legislation is most desirable, but the specific program seems inadequate. It will be necessary to ascertain that its effects will be directed toward those segments of the U.S. business community—small- and medium-sized enterprises—that are most in need of tax incentives. In this way we can assure that the greatest national benefit will be derived for the tax revenue lost.

Tax incentives with respect to oversea private investment in underdeveloped nations need also to be considered; these are generally incorporated in the concept of H.R. 5, 86th Congress, the Boggs bill. The restrictions on investments and earnings abroad in the developed and industrialized nations which the President has proposed must be coupled with such a program for the expansion of investment in the underdeveloped countries.

Countries such as the Soviet Union which represent our "survival" competition in the "cold war," and West Germany and Japan, who are our friendly competitors in the field of commerce, have had annual economic growth rates of between 6 and 10 percent during the past decade—two to three times the U.S. rate. These nations have been annually investing between 20 and 30 percent of their gross national product in new capital equipment, as compared to a U.S. investment of 11 percent per year during the same period.

2. Enlistment of the cooperation of labor and management is essential for the fullest utilization of our economic potential. This means cooperation in retraining programs for workers who are unemployed as a result of technological progress; it means elimination of featherbedding practices by both labor and management, some of which are legalized by outdated laws that require revision; and it means the application of new ideas and skills in the research for more efficient methods and new products.

The achievement of such cooperation requires much more than an Executive order to establish an Advisory Committee on Labor-Management Policy, as created by President Kennedy on February 16. I have introduced a bill that would establish a National Productivity Council with authority to organize voluntary councils on a community, regional, or industry basis throughout the country. This would implement the White House Committee by law—to get the needed money for it to operate, to get it down to the plant and local level, to bring about grassroots participation and to mark the whole effort as an expression of the national will. These councils would act to accelerate national productivity by promoting peaceful labor-management relations, by solving problems caused by inflexible prices, the wage-price squeeze, featherbedding, and other economic sore spots that have been slowing the U.S. productivity rate.

Increased productivity cannot be assured by increased capital investment alone. The very nature of automation which is the instrument of greater productivity requires high morale and this means that labor must not be thrown on the scrap heap by automation but workers must be retrained, financed during the transition period, and again placed in jobs.

3. A national policy of affording equal opportunity in employment, education, housing, and the exercise of their civil rights to all elements of our population, regardless of color or religion is basic, also, to the entire effort toward productivity expansion. Such a policy must be expressed in positive terms through Government employment policies, the policies on Government contracts, appropriate legislation, and Executive orders.

As demonstrated in the testimony of the Council of Economic Advisers, there is a tendency to understate the importance of civil rights in education and employment in connection with manpower utilization. This is done despite the fact that 15 percent of our population represents minorities subjected to disadvantages in both these areas of economic progress. Eleven percent of our population belongs to the nonwhite minority whose 13.9 percent rate of unemployment today is nearly twice the national 7 percent average for white workers. This is a major national economic problem and should be dealt with.

A nation engaged in an epic struggle for the maintenance of free institutions in the world is seriously prejudiced if it deprives great minorities of its own of the full benefit of these institutions—especially when it needs to lead in a world, two-thirds of whose inhabitants have skins that are brown, black, or yellow. The United States can win the struggle for freedom through the utilization of all its talents; and this means the extension of all their rights equally to all of its people.

4. U.S. peace leadership requires a great expansion of our foreign trade, which represents our largest economic commitment to world affairs except for defense expenditures. Our current annual foreign trade is $35 billion—nine times greater than our economic and military foreign aid expenditures combined, and nine times greater than our annual private overseas investment. Our exports of $19.6 billion in 1960 were five times greater than our balance-of-payments deficit. Our imports from the developing nations enabled them to buy more than twice as much of the goods which they require for their economic development than did our economic aid program.

The export expansion policy announced by President Kennedy must be implemented by legislative action to augment and coordinate the export services provided by the Government, if it is to succeed in materially reducing the U.S. balance-of-payments deficits over the years—a deficit which if long continued at a high rate could seriously erode the value of the dollar upon which the economic survival of the entire free world depends.

Furthermore, export expansion, which is becomingly increasingly important to the domestic economic growth of the United States, requires an import policy meeting international as well as domestic needs. It must also maintain our markets abroad by preventing the economic isolation of the United States which would result from across-the-board protectionism by us or others not now practicing it. Such an important policy must gear up domestic industry to meet the challenges of international competition and must assist the workers, businessmen, and communities adversely affected to make the needed adjustment with the least possible hardship.

5. The international economic policy of the United States requires new media for coordinating the economic efforts of the free world.

It has already included ratification of the OECD which will coordinate the economic power of the industrial nations of the free world—their annual GNP is approaching $1 trillion, of which more than half belongs to the United States—so that it will become the determining factor in free world economic development. Within this organization concrete U.S. proposals must take shape to coordinate, with our friends, aid, trade, credit, and fiscal policies which will assure dollar stability and sound economic expansion. U.S. leadership and experience must be made freely available to this organization in providing Marshall plan type regional development programs in Latin America, south Asia, and Africa—programs of self-help and mutual cooperation.

6. U.S. policy must lead, on even a broader scale, toward the establishment of international banking and credit facilities which will provide for the increase of liquidity which is the essential basis for the rapid expansion of international trade. Mechanisms must be worked out which will enable the limited amount of hard currencies available to serve as the medium for the greatly increased international transactions on long enough credit terms to form the basic fabric of free world economic strength.

7. There must be a constant effort to draw upon the economic strength, technological skills, and managerial know-how of the private sector of our economy in carrying out of our international economic policies. This can be accomplished by mixed systems management groups acting in combined foreign aid operations of Government and business; by stimulation of a massive pool of private capital for overseas investment, perhaps through a publicly financed World Development Corporation; by providing tax incentives for overseas private investment in developing areas; and by enlisting the private economic system on a contract basis to give technical assistance to less developed areas.

A successful policy of stimulating private participation, however, will require governmental agencies to go out of their way to cooperate with management and labor in foreign economic policy. This goes beyond the export promotion effort which I have advocated—it means a basic change in operating procedures on the part of Government officials in important aspects of foreign relations.

These, then, are some of the ideas we have, some of the opportunities we can take to spur the economic progress of the American people and the world, not now being brought forward and developed by the administration. They are more than just the immediate measures needed to deal with the recession. They represent the real essence of the economic struggle. And they would demonstrate that we understand the basis for free world stability and that we are determined with all our resources to join with the rest of the free world in building that basis on a solid foundation.

APPENDIX

Staff Memorandum on the Relationship of the Federal Budget to Unemployment and to Economic Growth [1]

Several witnesses, appearing before the committee in December 1960 and in February 1961, expressed concern that the Federal budget has become too restrictive.[2] In part, they attributed the recent recession to the overly restrictive budget.

These economists pointed out, as did Chairman Heller of the President's Council of Economic Advisers, that the Federal budget in recent years tends to come into balance at excessively high rates of unemployment, to produce too large a surplus even at moderately full employment—say 4 percent—and to produce smaller and smaller deficits when unemployment is serious. To illustrate the point, unemployment of 6.3 percent (seasonally adjusted) in the first quarter of 1958 was accompanied by a Federal deficit of about $8 billion (seasonally adjusted annual rate), computed on the national income and product accounts basis.[3] In contrast, by the fourth quarter of 1960 when unemployment was again at about this same level (6.4 percent), the deficit, figured on the same basis, was less than a billion or about one-sixteenth to one-eighth of that realized in the first quarter of 1958.

Furthermore, the economic outlook presented to the committee implies continued high unemployment through this year and possibly through 1962, accompanied by very modest deficits compared to experience at similar rates of unemployment in previous years. In fact, it was estimated that the budget may come into balance with unemployment still as high as 6 percent (seasonally adjusted).[4]

What is the explanation and significance of this tendency of the Federal budget? This memorandum tries to answer this question by an analysis of the relationship of Federal revenues and expenditures to GNP and unemployment. To do so, it is necessary at first to set down several characteristics of the Federal budget structure and some simple assumptions about the variation of GNP over the years in relation to unemployment.

THE GNP FRAMEWORK OF THE ANALYSIS

First, it is necessary to explain the GNP framework of this analysis and the assumptions used. In what follows, changes in Federal

[1] Prepared by James W. Knowles.

[2] See "Current Economic Situation and Short-Run Outlook," hearings before the Joint Economic Committee, Dec. 7–8, 1960 (86th Cong., 2d sess.): testimony of Joseph A. Peckman (pp. 112–114, 132–134), and Charles L. Schultze (pp. 114–122, 132–134). See also "January 1961 Economic Report of the President and the Economic Situation and Outlook," hearings before the Joint Economic Committee, Feb. 9, 10, Mar. 6, 7, and Apr. 10, 1961 (hereafter referred to as Hearings): testimony of Herbert Stein, Feb. 10, 1961 (pp. 209–225).

[3] Computations here and elsewhere in this memorandum, which involve the Federal budget, are carried through on a national income and product basis rather than an administrative or cash budget basis. This is done to make the data directly comparable to the GNP as to concept, coverage, and timing. They are, therefore, to the extent possible, on a current (accrued or liability) basis and cover not only regular budget transactions but also those involving trust accounts.

[4] See statement of Dr. Heller, Hearings, pp. 573.

revenues and expenditures are related to changes in GNP as a measure of the Nation's total output and incomes. All data are expressed in current prices, i.e., those prevailing in each year studied.

The basic idea is to separate changes accompanying growth of the economy along a full employment trend line—potential output—from those associated with departures from full employment. For this purpose, table 1 shows in current prices actual GNP for selected years during 1954–65, potential GNP, and the dollar difference between the two.

APPENDIX TABLE 1.—*Illustrative budgets at potential output, selected years, 1954 to 1965*

NATIONAL INCOME AND PRODUCT ACCOUNT BASIS

[In billions of dollars]

	Calendar years						
	1954	1957	1958	1960	1961	1962	1965
GNP—Current prices:							
Actual	363.1	442.8	444.2	503.2			
Potential	369.2	458.9	484.8	541.1	568.0	595.0	690.0
Actual—potential	−6.1	−16.1	−40.6	−37.9			
Percent of potential	−1.7	−3.5	−8.3	−7.0			
Federal budget on GNP basis:							
Expenditures:							
Actual	69.6	79.7	87.9	92.3			
At potential	69.1	79.5	85.6	90.0	96.0	101.0	110.0–115.0
Percent of potential GNP	18.7	17.3	17.7	16.6	16.9	17.0	15.9–16.7
Receipts:							
Actual	63.8	81.8	78.6	[1] 95.3			
At potential	65.6	87.7	94.1	108.0	114.0	120.0	143.0–146.0
Percent of potential GNP	17.8	19.1	19.4	20.0	20.1	20.2	20.7–21.2
Surplus (+) or deficit (−):							
Actual	−5.8	+2.1	−9.3	+3.0			
At potential	−3.5	+8.2	+8.5	+18.0	+18.0	+19.0	+28.0–36.0
Percent of potential	−.9	1.8	1.8	3.3	3.2	3.2	4.1–5.2

[1] Preliminary.

The potential GNP estimate used here assumes that full employment can be defined arbitrarily as implicitly 4 percent unemployment, though other working assumptions could be used. The potential is derived by procedures set forth in Study Paper No. 20, prepared for the use of the committee.[5] The estimates for recent years are in rough agreement with the Council of Economic Advisers' estimates presented to the committee during its hearings.[6]

Changes in Federal revenues and expenditures, therefore, are related: (*a*) to full employment or potential GNP; and (*b*) to the difference between actual and potential GNP, taken as a measure of cyclical fluctuations in aggregate output and incomes.

CHARACTERISTICS OF THE PRESENT FEDERAL BUDGET STRUCTURE

The characteristics of the Federal budget relevant to the present discussion are:

A. As to revenues

(1) Federal tax receipts fluctuate more violently than national income or GNP, reflecting the fact that the marginal rate on changes

[5] "The Potential Economic Growth in the United States," Study Paper No. 20, by James W. Knowles, prepared for the Joint Economic Committee in connection with its Study of Employment, Growth, and Price Levels, 86th Cong., 2d sess.

[6] Hearings, pp. 290 ff., especially pp. 294–295 and 318–329.

in incomes or profits is larger than the average rate. Since 1954, when the present code was adopted, it appears that the average take of Federal revenues out of the cyclical difference between actual and potential output has been about 36 percent.

(2) As the economy grows along the full employment or potential trend, Federal revenues rise by about one-fourth or 25 percent of the rise in potential GNP.

(3) It is estimated that at 4 percent unemployment, the basis for computing potential GNP, Federal revenues would have amounted to about 17.8 percent of potential GNP in 1954 or in year "0" in some of the analysis to follow.

(4) Potential Federal revenues are an estimate of the yield of the existing tax structure as it would be if output were always at the potential rate of output.

B. Federal expenditures

(1) The defense component of Federal spending is assumed to change solely for national security reasons, hence is not necessarily correlated with changes in potential or actual GNP, though changes in the two sometimes correspond.

(2) Federal nondefense spending is separated conceptually into two parts: one of which includes longer run programs not sensitive to cyclical fluctuations in output; the other includes the countercyclical items, especially unemployment compensation programs.

(3) Potential expenditures are estimated by adding to the defense and noncyclical nondefense items an estimate of the countercyclical items corrected to correspond to an unemployment rate of 4 percent.

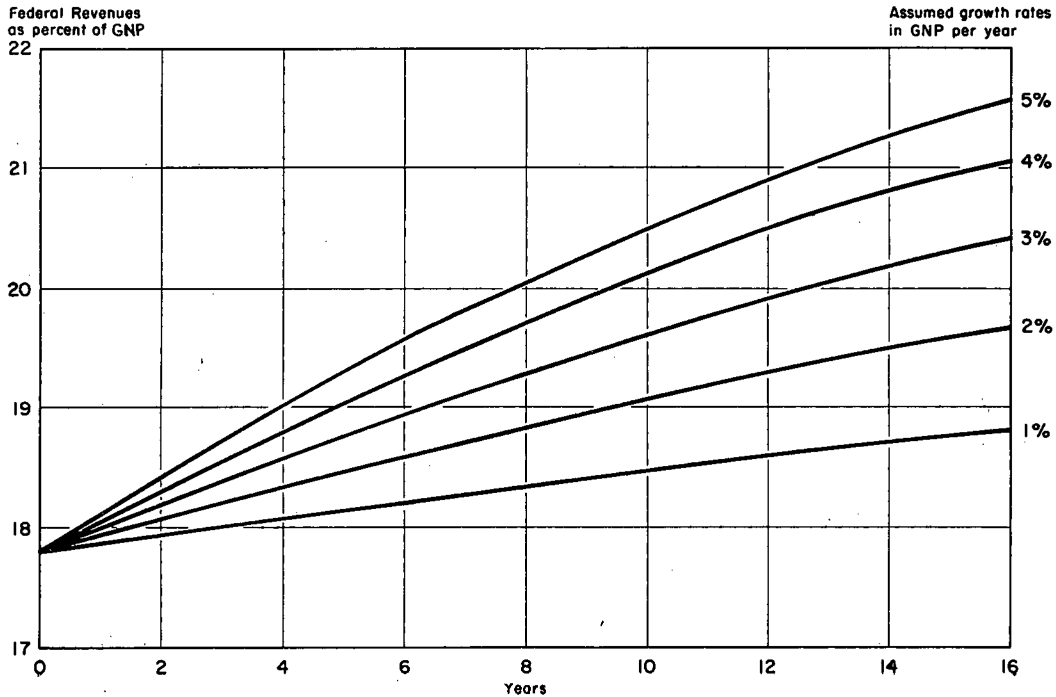
THE FEDERAL BUDGET AT POTENTIAL OUTPUT RATES

The reaction of the Federal budget to economic changes accompanying growth can be shown by illustrative calculations of revenues and expenditures corresponding to potential output. Appendix chart 1 shows the estimated yield of the Federal tax structure for the first 16 years following its enactment, calculated as a percent of GNP, and on the basis of five assumptions as to the rate of growth of potential GNP, ranging from 1 to 5 percent per year.

This chart reveals three facts about the Federal tax structure, long known to students of tax policy. First, in all cases the average effective rate of taxation rises if the economy grows. It will remain constant only if the economy always yields the same identical total output and incomes—that is, if there is no growth in potential output. Second, the average tax rate (percent of GNP) rises more rapidly as successively higher rates of growth in output of the economy are assumed. Third, for all rates of growth, the rise in the average tax rate tends to slow up as time passes. If these curves were carried out to over much longer time-spans (25 to 50 years) the average tax rates would gradually tend to flatten out at a maximum rate somewhat

APPENDIX CHART 1

Hypothetical Yield of the Federal Revenue Structure, First 16 Years from Enactment, Calculated as a Percent of Potential GNP, Assuming Selected Growth Rates of GNP per Year
(National Income and Product Accounts Basis)



below the assumed marginal rate of 25 percent. This is due to the effects of exemptions, exclusions, etc., in putting some drag on tax yields and to the fact that the average rate cannot exceed the marginal rate.

This illustration is particularly interesting, because roughly it is applicable to the present Federal tax structure with 1954 used as the "0" in the chart. It can be translated into illustrative estimates of the Federal budget for selected calendar years on a national income and product basis. Such data are presented in table 1. The potential revenues are based on the same assumptions as already outlined. The potential expenditures at full employment assume—

(*a*) that expenditures are adjusted to reflect an unemployment rate of 4 percent, particularly as to the rate of payments for unemployment compensation;

(*b*) estimates for calendar years 1961 and 1962 are roughly consistent with the revised data for fiscal years 1961 and 1962 presented to the committee by Budget Director Bell; and

(*c*) for 1965, the estimates assume a further substantial rise in expenditures, but not in the ratio of expenditures to GNP.

It will be noticed that at potential or assumed full employment levels of activity the Federal budget on a national income and product basis would have shifted from a deficit of about 1 percent of total output or $3.5 billion in 1954 when the current tax law was first put into effect, to a surplus of about 1.8 percent or about $8.5 billion by 1958, and to about 3.3 percent or $18 billion by calendar 1960. On the basis of these potential estimates, the surplus would continue at about 3 percent or more of potential GNP in 1961 and 1962, and then would rise to between 4 and 5 percent by 1965, or to about $28 to $36 billion per year. These estimates, of course, assume current tax laws and do not allow for increases in revenues that would come about as a result of additional taxes levied to finance the new programs that have been proposed or enacted in the fields of unemployment insurance or social security.

The estimates would be affected significantly, of course, if other assumptions were made as to Government expenditures and growth rates. For example, for the same expenditure levels in calendar 1965, a reduction in the annual growth rate by 1 percentage point from 1954 to 1965 would reduce the surplus by 2 to 3 percentage points in 1965. On the other hand, for any given annual growth rate a rise or fall in the estimated Government expenditures by $5 billion in 1965 would cause the surplus as a percent of GNP to change in the opposite direction by 0.7 percent to 1.1 percent of GNP.

For the surplus in 1965 to be as low as 1.5 percent of potential GNP, therefore, either the growth rate (in current prices) must not exceed 3.2 percent per year (1954 to 1965) or expenditures must rise above those assumed in table 1 by about $18 billion or to about $133 billion in 1965. It is significant that the growth rate of actual GNP in current prices has been about 5 to 6 percent per year since 1947 and has averaged about 4 to 5 percent per year since 1953.

Since these calculations are in current prices, they make allowance for the rise in prices since 1954 amounting to 2.3 percent per year and assume a 1 percent per year rise in the GNP deflator from 1960 to 1965—mostly to take into account the effect on the deflator of statistical bias and the long-run bias of a rise in real wages (in line with productivity) which exerts an upward influence on the deflator, particularly in the Government and service categories of output.

Implications

The committee staff has indicated on previous occasions the implications of this difference between marginal and average rates in a growing economy at full employment. For example, in the 1954 study by the Joint Economic Committee staff, entitled "The Potential Economic Growth of the United States During the Next Decade," it was stated that—

"Further reductions in Federal tax rates are assumed in addition to those that have become effective this year and those which are incorporated in the Internal Revenue Code of 1954. The reductions are assumed to be such that by 1965 the Federal budget will be balanced but the combined State and local government deficit would be about $2 billion on an income and product basis. The tax reductions have been spread somewhat arbitrarily across all sources of Federal revenues except social security contributions. These assumed reductions in taxes would lower the combined total of Federal, State, and local revenues in 1965 perhaps 15 to 20 percent below the hypothetical yield that could be expected from present rates (including the Internal Revenue Code of 1954) at levels of output and incomes estimated for 1965" (pp. 10–11).

This assumption of tax reductions over the 11 years 1954–65 was essential to the projections in that study. Moreover, the estimated 15 to 20 percent reduction in total Federal, State, and local revenues below the 1965 yields from the 1954 tax structure was a very conservative estimate of the Federal tax revisions which would be needed during the decade now over half gone. First, it made no allowance for rising prices which may tend (with high marginal rates of taxes) to raise revenues faster than expenditures. Second, allowances for rising State and local tax rates now appear to have been low. Third, since the total was assumed to fall 15 to 20 percent, while State and local revenues and rates rose, the Federal tax cuts would have to exceed 15 to 20 percent.

Under the immediate postwar conditions, a rather substantial budget surplus was highly desirable in order to hold in check the inflationary forces the Nation had inherited from the war and the great depression. And indeed this was the case. The Federal surplus on income and product account was about 1 percent of national product of 1946, about 5 percent in 1947, about 3 percent in 1948, and again about 3 percent in 1950. These relatively large budget surpluses contributed substantially to the prevention of a runaway inflation at the time.

But today, after the postwar inflationary forces have subsided, it seems hazardous to assume that the economy can rise to full employment (i.e., 4 percent unemployment) while a steadily rising State and local tax structure bears with increasing severity on consumption and Federal fiscal policies are geared to produce a surplus at full employment which may be of the order of magnitude of 2 to 3 percent of the gross national product. It is even more hazardous to assume that the economy can achieve full employment over the next 2 to 4 years with Federal fiscal policies geared to produce at potential output rates

(4 percent unemployment) a steadily rising surplus approaching the 4 to 5 percent rate, or in the range of $25 to $40 billion per year. To maintain a sensible monetary policy, and to give the Federal Reserve authorities freedom to maneuver without producing excessively restrictive credit conditions and too high interest rates, an appreciable budget surplus at the full-employment level is needed—perhaps equal to at least 1 percent of the potential gross national product and possibly as high as 1.5 percent of the potential gross national product. It is impossible, of course, to pinpoint an exact target percent, but a combination of tax and expenditure policies that can produce a rising surplus, at potential gross national product already at 3 percent and rising steadily toward 4 to 5 percent of gross national product, almost certainly threatens an insuperable barrier to the achievement of full employment.

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Publications of the Joint Economic Committee

January 1947–April 1961

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

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

**Food Prices, Production, and Consumption* (Report of the Joint Committee on the Economic Report), Senate Document 113: April 1957.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employment and Unemployment (Report of the Subcommittee on Unemployment), Senate Document 140: February 1950.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Monetary Policy and the Management of the Public Debt. Their Role in Achieving Price Stability and High-Level Employment (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management), Senate Document 123, Parts I and II: February 1952.

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

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

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

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

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

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

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

Sustaining Economic Forces Ahead (Materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: December 1952.

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

**Index of Joint Economic Publications:* January 1947 through December 1952. Committee print: January 1953.

**Historical and Descriptive Supplement to Economic Indicators:* December 1953.

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

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

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

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

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

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

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

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

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

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

**Historical and Descriptive Supplement to Economic Indicators:* November 1955.

*Hearings, Subcommittee on Economic Stabilization, Automation and Technological Change (October 14, 15, 17, 18, 24, 25, 26, 27, and 28, 1955) (sale price $2.00): November 1955. (Reprinted September 1959.)

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

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

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

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

**Federal Tax Policy for Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Tax Policy), committee print (sale price $2.50): November 1955. (Reprinted September 1959.)

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

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

**The Federal Revenue System: Facts and Problems* (Materials assembled for the Subcommittee on Tax Policy by the committee staff), committee print (sale price 55 cents): January 1956. (Reprinted May 1959.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal Policy Implications of the Economic Outlook and Budget Developments (Report of the Subcommittee on Fiscal Policy), House Report No. 647 (sale price 10 cents): June 1957.

Hearings, Subcommittee on Fiscal Policy, Fiscal Policy Implications of the Economic Outlook (June 3, 4, 5, 6, 7, 13, and 14, 1957) (sale price $1.00): June 1957.

†*Productivity, Prices, and Incomes* (Materials prepared for the Joint Economic Committee by the committee staff), committee print (sale price 70 cents): June 1957.

Soviet Economic Growth: A Comparison with the United States (A study prepared for the Subcommittee on Foreign Economic Policy of the Joint Economic Committee by the Legislative Reference Service of the Library of Congress), committee print (sale price 40 cents): September 1957.

1957 Historical and Descriptive Supplement to Economic Indicators (Prepared for the Joint Economic Committee by the Committee Staff and the Office of Statistical Standards, Bureau of the Budget), committee print (sale price 40 cents): September 1957.

†*Federal Expenditure Policy for Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Fiscal Policy), committee print (sale price $3.25): November 1957.

†Hearings, Subcommittee on Fiscal Policy, Federal Expenditure Policy for Economic Growth and Stability (November 18–27, 1957) (sale price $2.00): January 1958.

Federal Expenditure Policies for Economic Growth and Stability (Report of the Subcommittee on Fiscal Policy), committee print (sale price 10 cents): January 1958.

†*Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Agricultural Policy), committee print (sale price $2.25): November 1957.

Hearings, Subcommittee on Agricultural Policy, Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability (December 16–20, 1957) (sale price $1.00): January 1958.

†*Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability* (Report of the Subcommittee on Agricultural Policy), committee print (sale price 15 cents): February 1958.

†Hearings, Subcommittee on Economic Statistics, The National Economic Accounts of the United States (October 29 and 30, 1957) (sale price 75 cents): December 1957.

Hearings, Subcommittee on Economic Stabilization, Automation and Recent Trends (November 14 and 15, 1957) (sale price 30 cents): December 1957.

Automation and Technological Change (Reprint of S. Rept. 1308 of the Joint Committee on the Economic Report, January 1956) (sale price 10 cents): January 1958.

International Economic Statistics (A Memorandum prepared for the Subcommittee on Economic Statistics of the Joint Economic Committee by the Office of Statistical Standards of the Bureau of the Budget), committee print (sale price 25 cents): February 1958.

Hearings, January 1958 Economic Report of the President (January 27, 28, 29, 30, February 3, 4, 5, 6, 7, and 10) (sale price $1.50): February 1958.

†*Joint Economic Report* (Report of the Joint Economic Committee on the 1958 Report of the President): House Report No. 1409 (sale price 20 cents): February 1958.

**The Relationship of Prices to Economic Stability and Growth* (Papers submitted by panelists appearing before the Joint Economic Committee), committee print (sale price $2.00): March 1958.

†Hearings, Relationship of Prices to Economic Stability and Growth (May 12, 13, 14, 15, 16, 19, 20, 21, and 22, 1958) (sale price $1.25): July 1958.

The Relationship of Prices to Economic Stability and Growth (Commentaries submitted by economists from labor and industry appearing before the Joint Economic Committee), committee print (sale price 65 cents): November 1958.

†Hearings, Relationship of Prices to Economic Stability and Growth (December 15–18, 1958) (sale price $1.25): February 1959.

†Hearings, Subcommittee on Fiscal Policy, Fiscal Policy Implications of the Current Economic Outlook (April 28, 29, 30, and May 1, 1958) (sale price 55 cents): July 1958.

Frequency of Change in Wholesale Prices: A Study of Price Flexibility (A study prepared for the Joint Economic Committee by the U.S. Department of Labor, Bureau of Labor Statistics), committee print (sale price 30 cents): January 1959.

Economic Policy Questionnaire (Tabulation of replies submitted to the Subcommittee on Economic Stabilization of the Joint Economic Committee), committee print (sale price 15 cents): February 1959.

*Hearings, January 1959 Economic Report of the President (January 27, 28, 29, 30, February 2, 3, 4, 5, 6, 9, 10, 1959): March 1959.

Joint Economic Report (Report of the Joint Economic Committee on the 1959 Report of the President): Senate Report No. 98 (sale price 25 cents): March 1959.

**The Federal Revenue System: Facts and Problems* (Materials assembled for the Subcommittee on Tax Policy by the committee staff), committee print (January 1956) Revised May 1959 (sale price 65 cents): May 1959.

Economic Policy in Western Europe (Report based on conferences on economic policy matters held in seven countries of Western Europe late in 1958 together with selected materials assembled by the committee staff), committee print (sale price, $1.25): July 1959.

†Hearings, Subcommittee on Economic Stabilization, Automation and Technological Change (October 14, 15, 17, 18, 24, 25, 26, 27, and 28, 1955) (sale price $2): (November 1955) Reprinted September 1959.

**Federal Tax Policy for Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Tax Policy), committee print (sale price $2.50): (November 1955) Reprinted September 1959.

Comparison of the United States and Soviet Economies (Papers submitted by panelists appearing before the Subcommittee on Economic Statistics), committee prints.

- †Part I (sale price, $1.00): October 1959.
- †Part II (sale price, 45 cents): November 1959.
- †Part III (sale price, 25 cents): November 1959.

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