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ANNUAL REPORT
 OF THE
 JOINT ECONOMIC COMMITTEE
 CONGRESS OF THE UNITED STATES
 ON THE
 JANUARY 1962 ECONOMIC REPORT OF THE
 PRESIDENT
 WITH
 MINORITY AND OTHER VIEWS



MARCH 7, 1962.—Committed to the Committee of the Whole House
 on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

MARCH 7, 1962.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Pursuant to section 5(a) of Public Law 304 (79th Cong.), there is transmitted herewith the Annual Report of the Joint Economic Committee on the January 1962 Economic Report of the President, containing, in addition, minority and other views.

I am,

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

REPORT ON THE JANUARY 1962 ECONOMIC REPORT OF THE PRESIDENT

MARCH 7, 1962.—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

R E P O R T

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

INTRODUCTION

The Employment Act of 1946 requires the President to transmit to the Congress at least once a year an "Economic Report" reviewing the state of the economy and current and foreseeable trends in the levels of employment, production, and purchasing power; reviewing the economic programs of the Federal Government; and setting out a program to achieve the objectives of the act. The act also requires the Joint Economic Committee to review the President's Economic Report and make a report to the Congress setting out its findings and recommendations with respect to each of the main recommendations made by the President. We have reviewed the Economic Report for 1962, and held hearings at which expert witnesses from Government, universities, private business, and farm and labor organizations gave their analyses and evaluations of the President's report and recommendations. Accordingly, we submit our report herewith.

THE ECONOMIC REPORT

To begin, we wish to congratulate the President and the Council of Economic Advisers on the high quality of the Economic Report. The division of the document into a brief Presidential statement and a fuller report by the Council enhances the impact of the President's observations and recommendations and allows the Council greater freedom in its own presentation. The report contains an extremely informative account of the working of the American economy, and especially of the complex role of the Federal Government in this economy. The explanation of the several forms of the Federal budget is handled with rare clarity and will prove of permanent value to

students and practitioners of economic policy. The concept of the "full employment surplus" affords a useful framework for the appraisal of the economic impact of budgetary proposals. The guidelines for noninflationary wage and price behavior offer useful guides for the decisions of private parties and provide reasonable standards for appraising the effects of such decisions. The development of such standards is essential to the protection of the public interest in price stability against the inflationary potential of concentrations of private economic power. The Council presents a lucid summary of the record of recovery achieved during 1961 and sets forth clearly the unfinished business before us—full recovery without inflation, reduced unemployment, strengthened defenses against future recessions, more rapid economic growth, and balance-of-payments equilibrium. The data and analysis presented provide the necessary background for the understanding and appraisal of both the President's broad proposals and the detailed pieces of legislation that will come before this Congress in the field of economic policy. The statistical appendix is, as always, an invaluable handbook for legislators and others concerned with the state and prospects of the economy.

THE BUDGET

In addition, we wish to congratulate the Director of the Budget and his assistants for several innovations in the budget presentations which are most useful in relating the Government's fiscal operations to the general economy, and also for the new volume of condensed budget tables made available, at a modest price, to the general public.

SCOPE OF COMMITTEE REPORT

These new materials and the new, more fully analytical treatment of previously available materials have been most helpful to the committee in forming judgments on the overall influence of the Government monetary and fiscal policies.

In the report to follow we discuss and state our judgments on the individual programs recommended in the Economic Report. We have given most attention, however, to general monetary and fiscal policies, as these have the most pervasive influence on incomes, savings, and investment, and are thus most directly related to the objectives of the Employment Act of 1946—including maintaining maximum production, employment, and purchasing power.

In a money economy, as we know, the Nation's income in a given period is equal to the value of the final output of goods and services in the period, which in turn must be equal to the amount spent for consumption and investment combined.

Thus, if individuals and institutions save, in money terms, more than is invested, income falls. Indeed, since the income fall is the same as the fall in total spending, it is more usual to say that the Nation cannot save more than is invested.

On the other hand, incomes rise only with increases in spending. But if the managers of the Nation's money system do not, in their discretion, permit an appropriate increase in the money supply, then incomes do not rise, the output of goods and services does not increase, and unemployment of labor and capital results.

The Government's fiscal operations, at the size of the present budget, make heavy diversions of private incomes, savings, and investments and must, therefore, be conducted with caution. The effects of a restrictive monetary policy can be offset by an expansionary fiscal policy, and vice versa, to achieve or maintain a given level of economic activity; or both monetary and fiscal policies may simultaneously be either restrictive or expansionary. Two conclusions concerning Federal tax and expenditure operations now seem clear: first, these operations may have either expansionary or repressive effects on the general economy even while the annual budget is running a deficit. Second, defense and other national needs permitting, reductions in the Federal debt can be made without repressive effects on the economy—provided only that the Federal budget does not become repressive too suddenly by too large an amount. If funds made available by debt retirement are simultaneously invested, or otherwise spent for current production, by other public and private sectors, the debt retirement will not cause incomes to fall. But market adjustment to large changes in patterns of consumption, saving, and investment may take time and a degree of "gradualism."

The advances which have been made in understanding the stabilizing and destabilizing roles that monetary and fiscal policies can play in the economy do not suggest that these policies can be a substitute for the market mechanism in adjusting resource uses and maintaining equilibrium at high levels of employment. On the contrary, it becomes doubly clear that we must follow policies to strengthen competition and make the market mechanism more responsive to the play of market forces.

PROGRESS TOWARD RECOVERY

It is now evident, as was believed at the time of our last report, that the 1960–61 recession was indeed beyond its low point early last spring. Most economic indicators place the low point in February.

Since that time the economy has achieved a rapid recovery, a large increase in the output of goods and services of all kinds, higher corporate profits and consumer incomes, a return to a more normal workweek, and, to some extent, more jobs.

The Nation's output as measured by GNP, which was \$501 billion (annual rate basis) in the first quarter of 1961, rose to \$542 billion in the fourth quarter, an increase of about 10 percent per year. In many respects this is most encouraging, especially in view of the fact that the most optimistic current dollar estimates a year ago placed the GNP in the fourth quarter at \$530 billion. In other respects, notably the continuing high unemployment, the recovery thus far is much less encouraging.

The recovery so far achieved has meant an early increase in personal income of \$24 billion (compared to the first quarter of 1961), and of about \$13 billion in business profits. Farm incomes for the year 1961 rose by \$1 billion over 1960, an increase of 8.5 percent—12 percent of net cash farm incomes. Commodity prices, which underwent no significant decline during the 1960–61 business downturn, have remained stable or actually declined slightly. Consumer prices rose by only about one-half of 1 percent between February and December, while wholesale prices declined slightly in the same period.

FACTORS IN THE RECOVERY

The factors that combined to give the economy a boost were much the same as those identified in our previous report. Federal spending advanced by \$5 billion, mostly for defense; State and local expenditures increased by \$3 billion; business shifted from a \$4 billion rate of inventory liquidation to a rate of inventory accumulation of almost \$5½ billion; residential nonfarm construction increased by almost \$4 billion as did business spending for producers' durable equipment.

Our international balance-of-payments position was—and continues to be—a major preoccupation of Government policy, domestic as well as foreign. Monetary policy was—and continues to be—largely immobilized in a posture more suited to restraining overemployment than to stimulating recovery. Yields on Treasury bills, which were below 1 percent in the initial stages of the 1958 recovery, were apparently pegged at a minimum of 2¼ percent as early as mid-1960 and rose gently during 1961. Long-term interest rates remained above those of the tight money periods of 1953, 1955, and 1957, and rose during the year.

THE CONTINUING UNEMPLOYMENT PROBLEM

Despite the rapid progress of the recovery to date, unemployment remains disturbingly high. Indeed, the large gains in production achieved during 1961 were accomplished almost entirely by a return to a more normal workweek and a step-up in operations with resulting increases in output both per man-hour and per worker.

The unemployment rate continued close to the 7-percent level through most of the year, finally dropping to 6.1 percent in November and to 6 percent in December. Between February and December civilian employment increased by only 213,000 (seasonally adjusted). The Armed Forces callup, on the other hand, took over one-quarter of a million people out of civilian activities.

The failure of output and demand to expand sufficiently as yet to provide adequate job opportunities continues to pose the Nation's No. 1 economic problem. Unemployment was still 5.8 percent of the labor force (seasonally adjusted) in January, and an additional 2.1 million workers seeking full-time work were employed on a part-time basis. Taking both the totally unemployed and the partially unemployed together, the equivalent rate of unemployment was almost 7 percent of the labor force.

Furthermore, the long period of inadequate job opportunities seems to have led people to drop out or stay out of the labor force—as the labor force is counted—although, under more prosperous conditions, these same people would have been at work. The total labor force (including members of the Armed Forces) would normally have increased by 1 million persons or more from January 1961 to January 1962. As reported, it increased by only 203,000 persons. Taking into account the apparent deficiency in the growth of the labor force (at least three-quarters of a million), almost 8 percent of available civilian workers were still without jobs in January 1962.

THE OUTLOOK FOR 1962

There is general agreement that the recovery will continue during 1962, though at what pace is not entirely clear. Favorable prospects are seen for further advances in private demand, together with a continued rise in Federal, State, and local government outlays.

The administration has based its budget and economic report on the expectation of an advance sufficiently strong to raise GNP to an average of \$570 billion for the year (in current prices). This would be \$49 billion, or 9.4 percent above the 1961 average. This rate of advance is more modest than that during 1961. It is about in line with the rate of advance during the 1954-55 recovery, slightly more rapid than in 1958-59, and slower than in 1949-50. The Council says:

This appraisal of the prospects for production and income implies an unemployment rate of 5 percent or somewhat lower at the end of 1962 but not as low as 4 percent (Economic Report of the President, p. 66).

A gross national product of \$570 billion for the year 1962 is assumed to be consistent with a personal income of about \$448 billion and corporate profits of about \$56.5 billion before taxes. (See table 1.)

TABLE 1.—*The economic assumptions underlying the Economic Report of the President and the budget for fiscal 1963*

[In billions of dollars]

Item	Calendar years		Change from 1961 to 1962	
	1961	1962	Amount	Percent
Gross national product.....	521	570.0	+49.0	+9.4
Personal income.....	417	448.0	+31.0	+7.4
Corporate profits before taxes.....	46	56.5	+10.5	+22.8

Sources: Economic Report of the President for January 1962, p. 62; and The Budget of the United States Government, Fiscal Year Ending June 30, 1963, pp. 44-45.

On the other hand, the Council states its belief that a vigorous expansion, stimulated by sound Government and private policies, could make possible the achievement of a 4-percent unemployment rate by mid-1963 without "serious upward pressures on prices." If this belief of the Council is to be realized, expansion will have to continue at a rapid pace through mid-1963.

Underlying the administration's expectation of a continued rise in overall economic activity throughout 1962 are expansions in both private and public demand. The Council divides the anticipated 1961-62 increase in GNP (in current prices) as follows:

The expected total increase is made up, very roughly, of the following parts: One-half, consumer outlays; one-fifth each, Government purchases and private fixed investment; and one-tenth, additions to inventories (*ibid.*, p. 63).

Private demand

Within the private sector, which is expected to account for roughly four-fifths of the expansion in demand, the largest single anticipated increase is in consumer outlays. Almost all of this is expected to come from a rise in disposable personal income; the ratio of total consumer expenditure to disposable personal income is assumed to " * * * rise slightly in 1962." In the business sector, inventory accumulation is expected to average very little, if any, higher than the present rate of \$5½ billion per year, and in the Council's words " * * * cannot be expected to be a significant expansionary factor in the latter half of this year" (p. 64).

Residential nonfarm construction is expected to make further moderate gains, but most of the expected increase between 1961 and 1962 has already occurred. Rising output in the domestic economy may be accompanied, as usual, by some further increase in imports of raw materials and components. The net excess of exports over imports seems likely to shrink modestly, as is usual in a period of recovery.

An anticipated major force behind the expansion in private demand is a rise in business outlays for plant and equipment significantly greater than occurred in the 1958-60 expansion. This expectation assumes a rising flow of internal funds from retained earnings and depreciation allowances, substantial incentives for modernization and replacement, and an appreciable stimulus from increased utilization of capacity.

Effects of fiscal policies

In the public sector, purchases of goods and services by State and local governments are expected to continue to rise by about \$4 billion per year, or about \$1 billion per quarter. Federal budget policies imply continued expansion of Federal purchases of goods and services to \$64.2 billion for fiscal 1963, compared to an annual rate of about \$60 billion in the fourth quarter of calendar 1961. This also implies an increase of about \$1.7 billion per quarter between early 1961 and the first quarter of this year, and then a slower rate of increase of approximately \$1 billion per quarter through the remainder of 1962. Almost all of the Federal expansion is in increased expenditures for national security and related programs.

INHIBITING FORCES IN FURTHER RECOVERY

In summary, the outlook is for continued improvement through 1962. It does appear, however, as most of the expert witnesses seem to feel, that the extent of improvement expected by the Council of Economic Advisers is optimistic. Inhibiting forces present in past recoveries seem likely to reappear.

Tight money policy

First, Federal Reserve authorities have shown a stubborn propensity to tighten credit and force up interest rates during each recovery period, notwithstanding the fact that each recovery has begun from a higher plateau of interest rates (and a money supply relatively smaller) than the previous recovery. Interest rates have been trending upward again throughout the 1961 recovery. Although the upward movement so far has been at a comparatively gentle rate, there are indications that the monetary authorities are already impatient to have them resume their more accustomed pace.

As recovery continues, some increased pressures on our international payments position may develop. Such pressures, if they occur, will no doubt strengthen the hand of the monetary authorities and result, perhaps, in another monetary squeeze. A movement toward tighter credit when Federal fiscal operations are moving from deficit spending toward a surplus of revenues over expenditures could well produce a slowdown if not an actual downturn similar to the one in 1960.

Spending plans

Second, the large push given the economy in 1961 by inventory building and increased Federal spending must be expected to taper off during 1962. Consumers' buying plans, as indicated by January 1962 surveys, do not portend any large expansion of consumer spending. This leaves spending for plant and equipment as the mainstay of the Council's projected recovery. As yet, however, surveys of business plans give little evidence that large increases in such expenditures are in the offing.

Tax "take" too steep?

Finally, there is some question whether the Federal budget will not prove too restrictive despite the careful attention that the administration has given this matter. We refer here not to the administrative budget as projected for fiscal 1963, but rather to the "income-and-product-account budget" as it would look if the economy improved to

the point where only 4 percent of the labor force remained unemployed.¹

If the Council's estimates are correct, the income-and-product-account budget, at 4-percent unemployment, would be running a high surplus—about \$10 billion a year—in the first half of calendar 1963. As a witness for the Committee on Economic Development testified:²

This is higher, even in relation to the size of the economy, than in any previous period of high employment since the unusual conditions of 1948. Moreover, this surplus would be accompanied by higher interest rates than at any earlier time in the postwar period.

A \$10 billion surplus in the first half of 1963 would be adding to the savings of individuals and public and private groups an amount equal to 1.6 percent of the potential GNP at that time. Furthermore, the Council may have underestimated the size of the high employment surplus, which may be as high as 2 to 3 percent of the potential GNP.

This obviously does not mean that the Federal Government cannot, under any circumstances, make net reductions in its debt at a rate of 2 to 3 percent of the GNP. Indeed, in the fiscal years 1947 and 1948 the Federal Government surplus (on a national-income basis) was about 5 percent of the GNP, a proportion again achieved in fiscal 1951. These large surpluses helped restrain the inflationary pressures of those years. It is our considered view, furthermore, that in periods of high employment the Federal Government should make net reductions in its debt. Indeed, we have recommended repeatedly that the Federal Government employ fiscal policies more heavily to secure economic stabilization, while allowing the money supply to grow at a rate sufficient to permit a greater expansion of private economic activity.

However, a budget which would, under present noninflationary circumstances, divert \$10 billion or more from spending to potential savings may well choke off recovery before a high level of employment is reached.

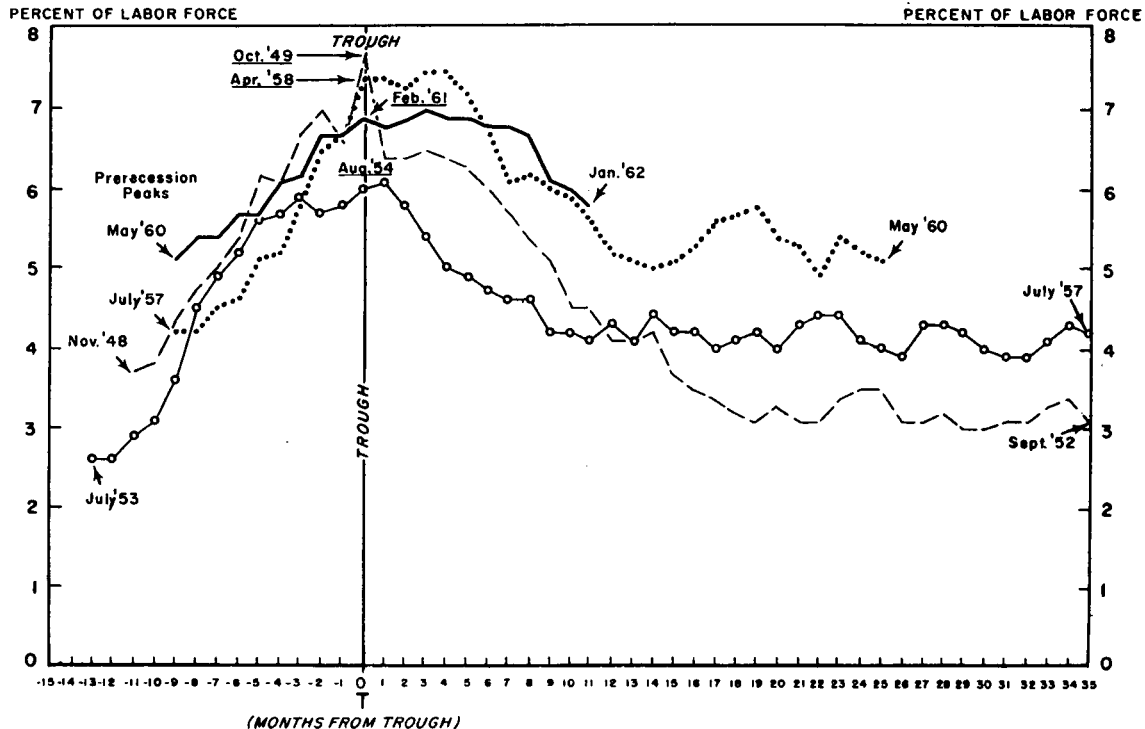
The reports of both the President and the Council of Economic Advisers repeatedly emphasize, we think correctly, that the problem ahead is to provide for an expansion of consumer demand. The immediate problem, as we see it, is for the Federal Government to adopt fiscal and monetary policies which find that balance between effective consumer incomes and investment incentives that tends to produce stability at high levels of employment and rapid economic growth.

During the postwar years the unemployment rate has tended to drift persistently upward, with each recession (except the 1953-54 post-Korean downturn) beginning from a higher level of unemployment (see chart 1). Since the fall of 1957, the rate has remained above 5 percent. Two different explanations have been advanced for this: one is the so-called structural thesis, which is that automation and other developments have left relatively more workers unsuited to available jobs—by reasons of skill, location, or other factors—than was true at previous times. The second explanation is that

¹ See January 1962 Economic Report of the President (hereinafter referred to as "Economic Report"), p. 84.

² Hearings before the Joint Economic Committee on the January 1962 Economic Report of the President (hereinafter referred to as "hearings"), p. 657.

CHART I
 UNEMPLOYMENT RATES IN FOUR RECESSIONS AND RECOVERIES
 SEASONALLY ADJUSTED



unemployment has been high because total demand has been too low; hence output has tended to fall relative to the Nation's productive potential (see chart 2). According to the calculations of the Council, output was about 2½ percent above potential in early 1953, about 2 percent below potential at the cyclical peak in 1957, and almost 5 percent below potential at the 1960 peak.

At the low point of the 1960-61 recession—the first quarter of 1961—output was about 9 percent below potential, leaving a gap of about \$51 billion between actual and potential output. Recovery reduced the gap by the fourth quarter of 1961 to between \$28 and \$40 billion, or 5 to 7 percent.³

During the past year, our Subcommittee on Economic Statistics investigated the recent high unemployment and found little evidence to support the structural-transformation explanation. The proportion of unemployment due to structural and frictional causes seems not to have increased significantly compared to earlier periods. Most, if not all, of the recent excess over the administration's interim goal of 4 percent unemployed by mid-1963 is due to inadequate total demand.

The solution of the problem of high and continuing unemployment requires in the main: first and foremost, the prompt creation of conditions favorable to an expansion of demand sufficient to achieve full employment, and then sustain it; second, a substantial increase in both public and private efforts to increase the education, skills, and mobility of the labor force, including special programs, such as worker retraining and area redevelopment, to reduce the structural and frictional unemployment that will remain even when employment is high.

The Administration's view of the economic prospects and its policy recommendations reflect a balanced concern between achieving high employment and avoiding inflation. Speaking of the feasibility of achieving the Administration's interim goal of 4 percent unemployment by mid-1963, the Council describes its view of the preferred rate of recovery, as well as both a slower and a faster rate of recovery as follows:

A continued upward movement for more than two years with an over-all gain of 20 percent in real GNP would represent a very strong expansion. But a less ambitious rate of recovery to full employment would prolong the waste of unused resources without gaining appreciably greater assurance of stable prices.

* * * * *

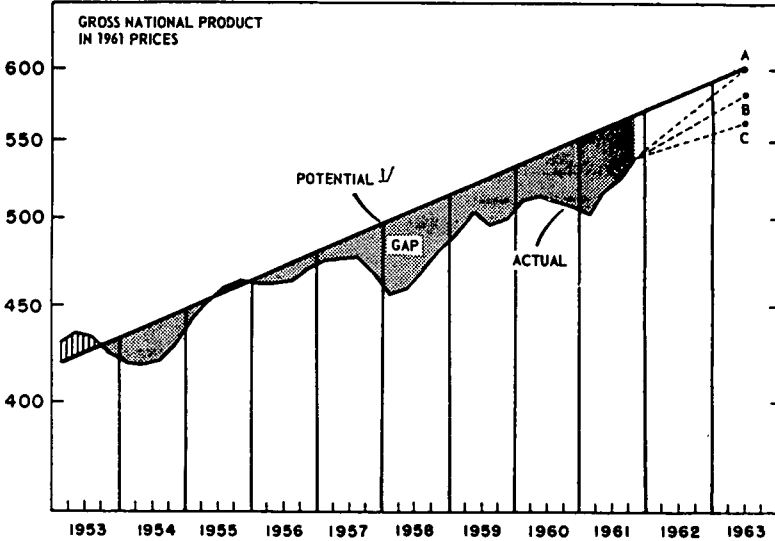
On the other hand, private demand can rise too fast or too far. Too rapid an expansion may strain the adjustment mechanisms of the economy. . . . It takes time to re-employ the jobless and to return efficiently to full utilization of capacity. Hence, a very rapid expansion of demand might involve price increases, bottlenecks, and inefficiencies that could be avoided in a more gradual rise to the same levels. (Economic Report, pp. 66-67.)

³ The smaller estimate of the gap is based on the estimates of potential output made by the Council of Economic Advisers. The larger estimate uses staff estimates based on the Committee's Study Paper No. 20, "Potential Economic Growth in the United States" (Study of Employment, Growth, and Price Levels [1960]).

CHART 2

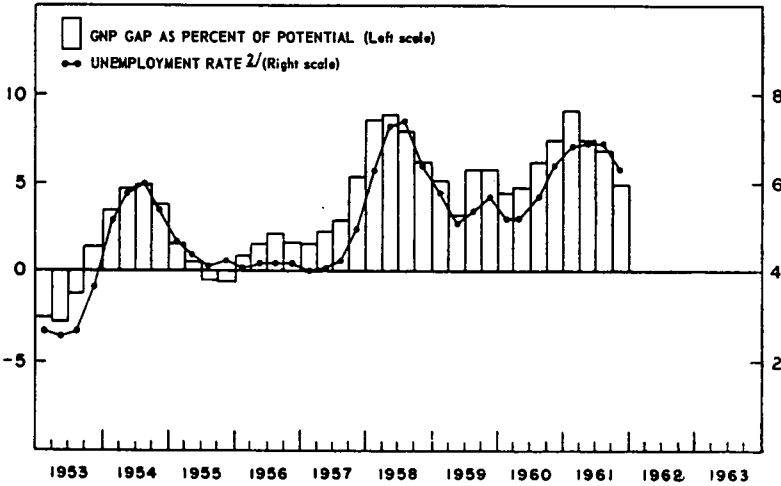
Gross National Product, Actual and Potential, and Unemployment Rate

BILLIONS OF DOLLARS* (Ratio scale)



PERCENT

PERCENT



* SEASONALLY ADJUSTED ANNUAL RATES.

1/ 3% TREND LINE THROUGH MIDDLE OF 1955.

2/ UNEMPLOYMENT AS PERCENT OF CIVILIAN LABOR FORCE; SEASONALLY ADJUSTED.

NOTE: A, B, AND C REPRESENT GNP IN MIDDLE OF 1963 ASSUMING UNEMPLOYMENT RATE OF 4%, 5%, AND 6%, RESPECTIVELY.

SOURCES: DEPARTMENT OF COMMERCE, DEPARTMENT OF LABOR, AND COUNCIL OF ECONOMIC ADVISERS.

MONETARY AND DEBT MANAGEMENT POLICIES

Monetary policies played a major role in the 1960-61 economic recession. Indeed, monetary and fiscal policies together, simultaneously mismanaged in the months preceding the downswing, appear to have been the principal causes of the recession. As in the months preceding the 1957 downswing, when credit was being tightened at the same time that defense contracts were being cut back and the Government was postponing payment of its bills, Federal fiscal operations preceding the 1960 downswing suddenly shifted to a large surplus position, while at the same time the Federal Reserve was engaging in extreme credit tightening. Within a period of approximately 1 year preceding the May 1960 downturn, the Federal budget underwent one of the most drastic shifts in the Nation's history, while the Federal Reserve was sharply contracting the money supply and driving up interest rates to a postwar high. Dr. Arthur F. Burns, first Chairman of President Eisenhower's Council of Economic Advisers, has stated his view of the two principal reasons for the 1960 downturn:

First of all, we had a violent shift in Federal finances. Between the first quarter of 1959 and the third quarter of 1959 the Federal cash deficit, allowing for seasonal factors, fell from an annual rate of \$17 billion to \$2 billion. By the second quarter of 1960, we were already operating with a surplus at an annual rate of \$7 billion. Thus, in a period of little more than a year we had a turnaround in Federal finances of about \$24 billion.

This was undoubtedly one of the very sharpest shifts of Federal finance in our Nation's history.

Second, the fiscal restraint on general economic expansion was accompanied—indeed preceded—by a tightening of credit conditions.

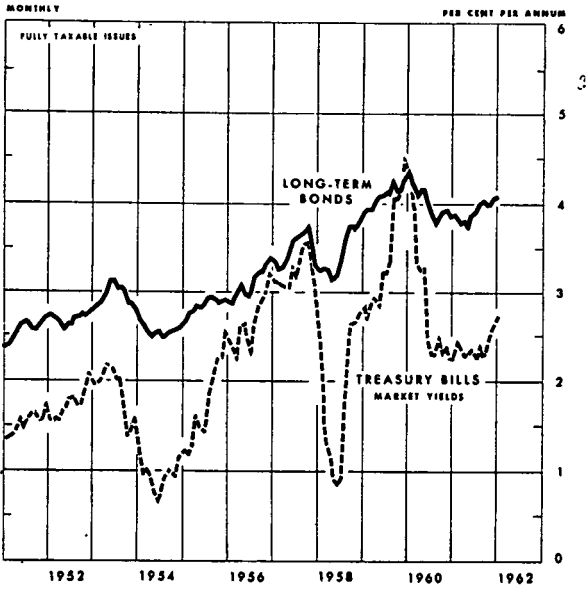
By mid-1959 commercial banks were already in debt at the Federal Reserve to the tune of \$1 billion. The money supply stopped growing. Demand deposits diminished by nearly \$4 billion between July 1959 and May 1960. Interest rates rose sharply, both on short-term and long-term loans. Indeed, long-term rates advanced faster than during a comparable stage of any business cycle during the past hundred years. (Congressional Record, Apr. 27, 1961, p. A2886.)

MONETARY POLICIES IN THE RECOVERY

In contrast to the very heavy role monetary policy played in precipitating the 1960 downturn, however, it played a quite limited part in aiding the 1961 recovery. Monetary policy in this period is characterized in the Council's report, and elsewhere, as one of ready credit "availability." By this it seems to be meant that with the recovery, personal and corporate savings increased, and some \$50 billion of funds were raised in capital and credit markets—almost as much as in 1959.

CHART 3

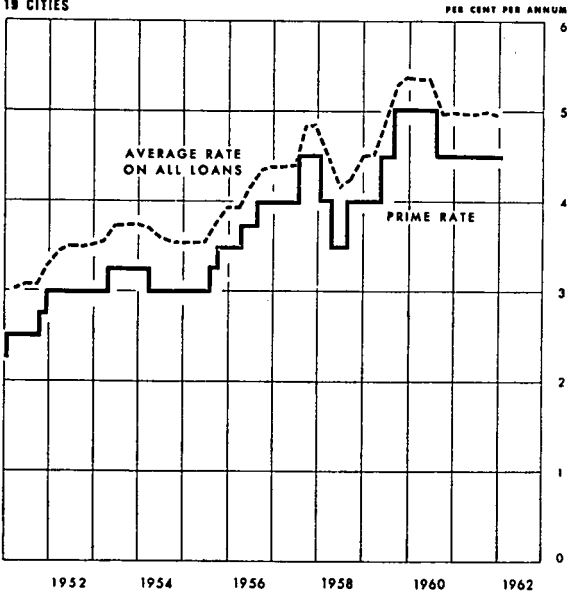
YIELDS ON U.S. GOVERNMENT SECURITIES



Source: Based on data from Federal Reserve Bulletin.

CHART 4

RATES CHARGED BY BANKS ON SHORT-TERM LOANS TO BUSINESS
19 CITIES



Source: Based on data from Federal Reserve Bulletin.

On the other hand, interest rates were maintained at levels much like those that have prevailed in periods of a credit squeeze.

Yields on long-term Government and corporate bonds remained above the peaks reached in the credit squeeze of 1957.

The discount rate was maintained at 3 percent, the same as prevailed through most of 1957.

The prime loan bank rate remained at 4½ percent throughout the year—a level reached only temporarily during the 1957 credit squeeze.

The average bank loan rate in 19 Federal Reserve cities remained at about 5 percent—a level considerably higher than was reached in 1957.

The yield on 91-day Treasury bills, which had been pegged at a minimum of 2¼ percent in mid-1960, fluctuated between 2¼ and 2¾ percent—an exceptionally high level for a period of recession.

“Bills only” policy dropped?

The principal preoccupation of monetary policies in 1961 was, and continues to be, the balance-of-payments problem. Since the Federal Reserve's announcement on February 20, 1961, that the “bills only” policy was being dropped, public interest has been centered on the question whether the Federal Reserve could or would bring down long-term rates, while holding up short-term rates to discourage the flow of short-term funds abroad.

TABLE 2.—*Short-term, long-term, and “spread” of long-term over short-term interest rates, by months, February 1961–February 1962*

[Percent per annum]

	Rate 3-month bills †	U.S. Gov- ernment long-term bond yield ‡	“Spread” long-term over short- term
1961—February †.....	2.41	3.81	1.40
March.....	2.42	3.78	1.36
April.....	2.33	3.90	1.47
May.....	2.29	3.73	1.44
June.....	2.36	3.88	1.52
July.....	2.27	3.90	1.63
August.....	2.40	4.00	1.60
September.....	2.30	4.02	1.72
October.....	2.35	3.98	1.63
November.....	2.48	3.98	1.52
December.....	2.62	4.06	1.44
1962—January.....	2.75	4.08	1.33
February †.....	2.85	4.11	1.36

† Rate on new issues.

‡ 10 years or more.

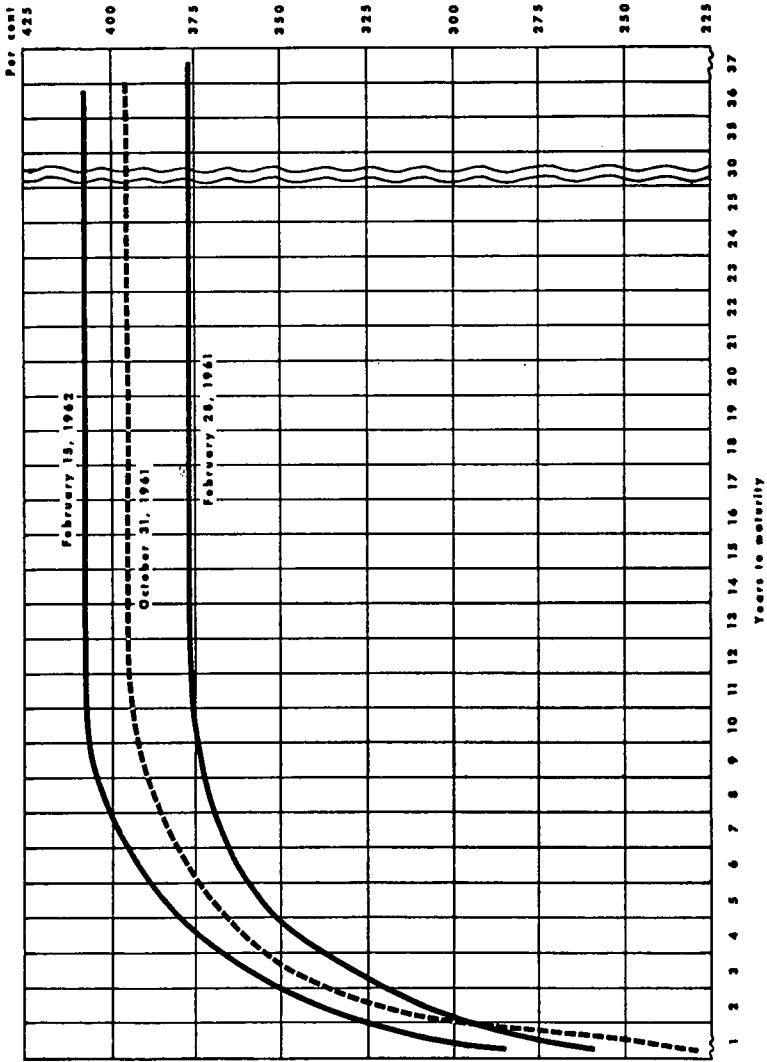
§ Announcement concerning policy of purchasing securities of mixed maturity ranges made on Feb. 20, 1961.

¶ Week ending Feb. 23, 1962.

Source: Federal Reserve Bulletin.

Short-term rates have been successfully maintained. Yields on new issues of 91-day Treasury bills declined somewhat from 2.41 percent in February 1961, to a low of 2.27 percent in July, from which point they have trended upward to 2.85 percent in the third week of February 1962. But whatever efforts may have been made to reduce long-term rates, these have not been notably successful. The average yield on long-term Government bonds was 3.81 percent in February 1961. This trended upward throughout the year, reaching an average of

CHART 5.—Yields on taxable treasury securities, by years to maturity.



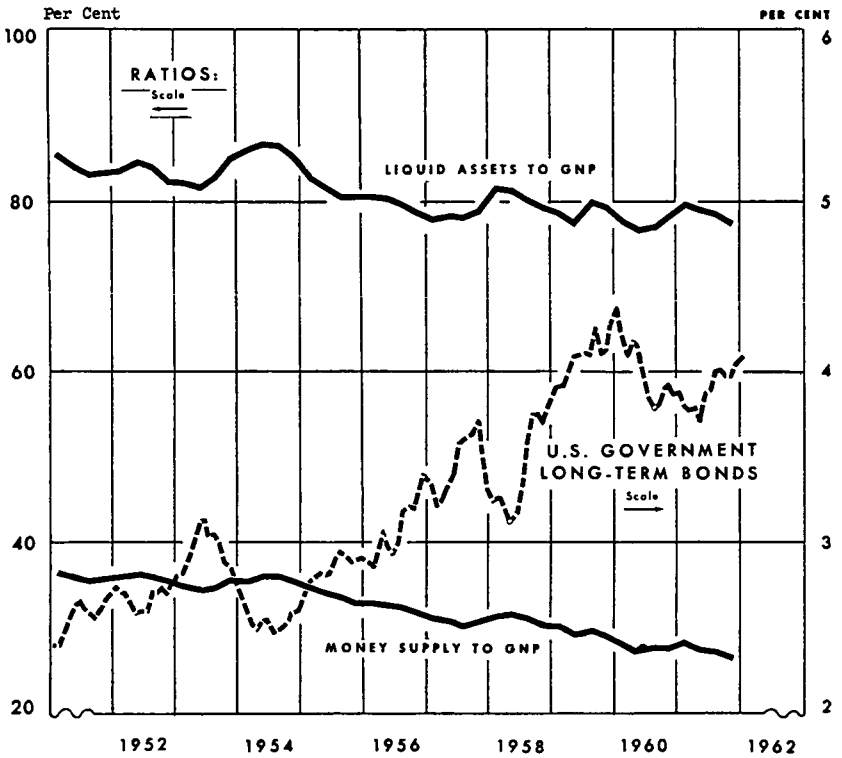
Source: Based on data from Treasury Bulletin.

4.10 percent in February of 1962. Moreover, the spread between the short-term and the long-term rates widened through most of 1961, though a substantial jump in the bill rate in January and February of the present year has now reduced the spread somewhat.

While the GNP, measured in constant prices, increased by 7½ percent between the first and the final quarter of 1961, the money supply increased by only 3 percent, meaning that the effective money supply was actually reduced. Indeed, both total corporate and personal liquidity (time and savings deposits, savings and loan shares, and savings bonds, plus currency and demand deposits), as well as the money supply, continued downward during the year at about the same pace as has been in evidence since 1951 and before (see chart 7).

CHART 6-7

MONEY DEMAND AND INTEREST RATE



Source: Based on data from Federal Reserve Bulletin.

On the occasions of two separate hearings last year the committee engaged the Chairman of the Federal Reserve Board in extensive colloquies concerning possible actions by the Federal Reserve System to make shifts in its portfolio of Government securities, to reduce its holdings of short-term securities and simultaneously increase its holdings of long-term securities. Indeed, this has been understood to be the only effective way open to the Federal Reserve for putting downward pressures on long-term rates while maintaining upward pressures on short-term rates. In view of its very substantial holdings of Government securities (\$26 to \$28 billion), such shifting from short-term to long-term maturities would seem to hold potentialities for quite formidable pressures in both directions, particularly since most of the portfolio is in short maturities—mostly less than 1 year. It was thus hoped that the Federal Reserve could, by selling to the open market substantial portions of its short maturities and simultaneously buying longer maturities, drive the long-term rates down relative to short-term rates.

Indeed, this has seemed the only way the Federal Reserve could make appropriate expansions of bank reserves, to permit the needed expansion of the money supply, without causing an increase in market prices of short-term securities and thus lowering all short-term rates.

Following Chairman Martin's appearance before the committee on March 7, however, some confusion developed concerning the meaning of the February 20 announcement—a confusion which Chairman Martin cleared up in a later appearance before the committee on June 2 of last year. Referring to the previous day's testimony of Mr. Robert G. Rouse, manager of the Federal Reserve's open market account—the official who executes the System's policy—the committee chairman asked Mr. Martin the following question:

Let me ask you this then: I understood from Mr. Rouse's testimony yesterday that your February 20 announcement was misunderstood, and that, in truth, the Open Market Committee has not made any decision to try to reduce long-term interest rates; is that correct?

Mr. Martin replied:

We have made a bona fide effort to endeavor to bring about a meaningful decline, although I pointed out how difficult it is to bring about a meaningful decline in long-term interest rates and, at the same time, to maintain the short rate in view of the balance-of-payments difficulty that we had. I pointed out at some length in the statement that I made on March 7 what the difficulties and problems were. And we have made a conscientious, sincere, earnest, and continuing effort to carry out both the spirit and intention of that February 20 statement.¹

¹ Hearings, review of annual report of the Federal Reserve System for the year 1960, p. 91.

Efforts to reduce long-term rates

The subsequent record indicates that the effort to shift the portfolio to long-term maturities was quite unsuccessful. While 54.7 percent of the total portfolio was in securities of under 1-year maturity in January 1961, by January of 1962 somewhat more than 60 percent of the total portfolio was in these short maturities. Approximately \$1.4 billion of securities were added to the portfolio on a net basis between the two dates, but none were added in long-term securities—those of more than 10-year maturity.² On the contrary, Federal Reserve holdings of long-term securities were actually reduced during the period—from \$271 million to \$266 million.

TABLE 3.—*Maturity distribution of U.S. Government securities held by Federal Reserve banks*

	Jan. 25, 1961		Jan. 24, 1962		Change
	Millions of dollars	Percent of total	Millions of dollars	Percent of total	
Under 1 year	14,624	54.7	16,904	60.1	2,280
Over 1 year to 5 years.....	10,673	39.9	8,738	31.0	-1,935
Over 5 years to 10 years.....	1,179	4.4	2,227	7.9	1,048
Over 10 years.....	271	1.0	266	1.0	-5
Total.....	26,747	100.0	28,135	100.0	1,388

Source: Federal Reserve Bulletin.

In his appearance before the committee on January 30, 1962, Chairman Martin said of the efforts to reduce long-term rates relative to short-term rates:

To this end, the Federal Reserve in early 1961 extended the area of its open market operations to include purchases of longer term securities as well as short-terms, in which open market operations formerly had been confined as a general rule. The purchase of long-term instead of short-term securities, when circumstances warranted, served at least to relieve the short-term market from the direct impact of these purchases on yields, and transfer that direct impact to the longer term area (hearings, p. 177).

² In its statistical series, the Federal Reserve System consistently notes that its data on "long-term" bonds refer to "bonds maturing or callable in 10 years or more" (e.g., Federal Reserve Bulletin, February 1962, p. 190). The Treasury Department in its compilations refers to "long-term" bonds as those "neither due nor callable before 15 years" (e.g., Treasury Bulletin, December 1961, p. 62).

Trading in a thin market

As to the question why the Federal Reserve had acquired so few securities of over 1-year maturity, and none of the over 10-year maturities, Chairman Martin's explanation was, in effect, that market trading in longer term securities had been so thin that the Federal Reserve could not have bought larger quantities without influencing market prices—which was of course the purpose of the proposal in the first place. Counting both the securities that the Federal Reserve had purchased and those that the Treasury had purchased for trust accounts, he said:

* * * The proportion for issues maturing in 1 to 5 years averaged 9 percent for the year, although in some months official purchases exceeded 30 percent of dealer sales in this area. In the 5- to 10-year area, the proportion amounted to more than 20 percent for the year as a whole and in the period from March through July was more than 33½ percent of the total. For securities maturing after 10 years, official purchases comprised over 30 percent of all market purchases for the year and nearly two-thirds of total purchases in the second quarter, when the bulk of the official purchases were made (*ibid.*, p. 178).

Since there are no official data on private sales in the market for Government securities, it is difficult to appraise the question of what the Federal Reserve's full opportunity to purchase long-term Government securities might have been had there been a determined effort to this end.

The Federal Reserve's report of sales by the 18 open market dealers who trade with the Federal Reserve's open market account in New York would suggest a very large market for Government securities, indeed, and certainly there was a substantial volume of marketable Government securities outstanding. Table 4 indicates the magnitudes involved. Chairman Martin has explained, however, that in arriving at his estimates of the very small trading in the "market," sales from one open market dealer to another have been excluded.

TABLE 4.—Total marketable securities outstanding, sales of 18 open market dealers and net additions to the Federal Reserve's portfolio

[In billions]

	Marketable Government securities outstanding (Dec. 31, 1961)	Sales of 18 open market dealers (1961) ¹	Net additions to Federal Reserve portfolio (Jan. 25, 1961, Jan. 24, 1962)
Within 1 year.....	\$85.9	\$150.5	\$2.3
1 to 5 years.....	64.9	33.0	-1.9
5 to 10 years.....	19.8	7.5	1.0
10 to 20 years.....	12.0	3.7	(*)
20 and over.....	13.4		
Total.....	196.0	(*)	1.4

¹ Estimated from published data on daily averages (including intramarket).² Less than 1/4 billion.³ Not applicable.

Source: Federal Reserve Bulletin.

A determined effort to shift the portfolio to long-term securities might have included the purchase of longer-term securities directly from the Treasury. Under existing law, the Federal Reserve has authority to purchase and have in its portfolio at any one time up to \$5 billion of securities purchased directly from the Treasury. This authority was not used during the year 1961.

DEBT MANAGEMENT

The Treasury's debt management policies, of course, provide wide opportunities in themselves for putting downward pressures on long-term rates and upward pressures on short-term rates. The committee's annual report of last year gave an account of the market for long-term bonds in the weeks immediately after the Federal Reserve's February 20 announcement that it was entering this market.

In the week following the February announcement the Federal Reserve did go into the market, an action which was interpreted to mean that it had initiated an effort to bring down long-term rates. Yields on long-term bonds dropped sharply during the week—from a yield of 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 only \$13 million in bonds—\$7 million in the 1- to 5-year maturity range, \$6 million in the 5- to 10-year maturity range, and none in the over 10-year maturity group. The Federal Reserve was in the market for bonds also during the next 2 weeks but was still purchasing inconsequential amounts. If by March 15 the bond market was still expecting long-term rates to come

TABLE 5.—*Treasury advance refundings, intermediate and long-term, 1961*

[In millions of dollars]

Bonds eligible for exchange			Bonds issued in exchange				
Issue	Remaining term to maturity	Amount outstanding when announced	Extension of maturity	Issue	Remaining term to maturity	Amount issued	Added annual interest
Mar. 15:							
2½s, June 15, 1959/62.....	1 year, 3 months.....	5,262	5 years, 5 months.....	3½, Nov. 15, 1967.....	6 years, 8 months.....	1,308	18.0
2½s, Dec. 15, 1959/62.....	1 year, 9 months.....	3,449	4 years, 11 months.....	do.....	do.....	1,421	19.5
2½s, Feb. 15, 1963.....	1 year, 11 months.....	3,971	4 years, 9 months.....	do.....	do.....	877	99.0
2½s, Aug. 15, 1963.....	2 years, 5 months.....	6,755	3 years, 3 months.....	3½s, Nov. 15, 1966.....	5 years, 8 months.....	2,439	21.3
Total.....		19,436				6,044	67.6
Sept. 7:							
2½s, Mar. 15, 1965/70.....	8 years, 6 months.....	4,688	10 years, 8 months.....	3½s, Nov. 15, 1980.....	19 years, 2 months.....	1,274	12.7
2½s, Mar. 15, 1966/71.....	9 years, 6 months.....	2,927	19 years, 11 months.....	3½s, Feb. 15, 1980.....	28 years, 5 months.....	1,297	13.0
Total.....		7,615	28 years, 8 months.....	3½s, Nov. 15, 1993.....	38 years, 2 months.....	1,187	11.9
						3,758	37.6

Source: Data from Treasury Bulletins.

down, it learned then that the Treasury apparently did not share this expectation. On that day the Treasury announced a large refunding of bonds that were approximately 2 years from maturity, with new bonds having a 6-year maturity. The old bonds, on which the Government was paying coupon rates ranging from $2\frac{1}{4}$ to $2\frac{5}{8}$ percent were replaced with bonds paying coupon rates of $3\frac{3}{8}$ to $3\frac{5}{8}$ percent. Furthermore, market yields at which the new bonds were issued were, according to the Treasury's announcement, "at least equal to those on outstanding issues of comparable maturity on the date of the offering." This action must have suggested to some investors either that the Treasury did not expect the longer rates to come down, or that it was giving away the taxpayers' money.

Advance refunding

Two years ago the committee recommended that the Treasury experiment with the possibilities for advance refunding, and we have been particularly interested in its operations in this field during the past year.

The March advance refunding already mentioned involved an exchange of approximately \$6 billion of securities. It added \$67.6 million to the annual interest cost of the debt.

An even more spectacular advance refunding operation was carried out in September. In this case the Treasury refunded nearly \$4 billion of $2\frac{1}{2}$ -percent bonds having $8\frac{1}{2}$ and $9\frac{1}{2}$ years to run to maturity. Holders of these bonds received, in exchange, $3\frac{1}{2}$ -percent bonds with maturities ranging from 20 to 37 years. Increasing the coupon rate by 1 percentage point on bonds still having a life of 8 years added \$37.5 million to the annual cost of carrying the debt. This and the March refunding together would seem to have added \$105 million a year to the cost of carrying the Federal debt, which appears a rather high price to pay for what is essentially a speculation on what the level of interest rates will be several years hence.

Pressures on the long-term rate

Net market purchases by the Treasury of long-term Governments for trust accounts in 1961—purchases which Chairman Martin told the committee “* * * exceeded in amount those by the Federal Reserve”—turned out to be \$278.2 million. This compares with \$354.8 million of long-term bonds purchased for the trust accounts in the previous year. In any case, such a relatively insignificant amount could hardly be expected to have an appreciable effect on long-term rates.

TABLE 6.—*Maturity distribution of marketable interest-bearing public debt*

(In billions of dollars)

Maturity classes	Dec. 31		Net change
	1960	1961	
Within 1 year.....	75.3	85.9	10.6
1 to 5 years.....	70.8	64.9	-5.9
5 to 10 years.....	18.7	19.8	1.1
10 to 20 years.....	13.2	12.0	-1.2
20 years and over.....	11.0	13.4	2.4
Amount outstanding.....	189.0	196.0	7.0
Average length.....	4 yrs. 7 mos.	4 yrs. 7 mos.	None

Source: Treasury Bulletin.

Within the calendar year 1961 the Treasury's outstanding debt was increased by \$7 billion. In the process, short-term maturities were increased by \$10.6 billion, while the longer maturities, principally in the 1- to 5-year maturity range, were decreased. This undoubtedly helped to keep very short-term rates up and probably had a depressing effect on rates in the 1- to 5-year range.

On the other hand, issues in the over 20-year maturity class were increased, and the average maturity of the debt at the end of 1961 was exactly the same as at the beginning—4 years and 7 months.

EFFECTS OF INCREASED INTEREST RATES

Several members of the committee have expressed concern over the effects that the upward trend in interest rates over the postwar years may have had on the cost of carrying the Federal debt. Noting that the budget for fiscal 1963 estimates interest costs for the year at \$9.4 billion, the committee chairman asked the Director of the Budget if he would estimate what this cost would be on the same amount of debt, at interest rates prevailing during the two previous administrations. According to the estimates submitted, the interest cost for fiscal 1963 would be \$6.6 billion at the average rates prevailing in the period 1946-53; and the cost would be \$7.1 billion at average interest rates prevailing in the years 1954-57.

Undoubtedly the effects that interest rates and interest rate changes have on the general economy are vastly more important than their direct effects on the Federal budget. Limiting our consideration to long-term rates, we might turn to an official statement in 1953 by the Board of Governors of the Federal Reserve System.³

Effects on borrowers

Speaking of the effect on borrowers of a rise in interest rates, the Board said in part:

In the fixed capital area these changes, together with changes in the outlook for profits and risks due to the altered credit and monetary situation, shift the balance of business decisions toward holding or buying old assets, and adapting old assets to new uses, rather than buying new ones.

To illustrate the point, an example was given of how a rise of 1 percentage point in the long-term rate will cause an investor to purchase an existing structure, rather than build a new one—an interesting point in view of current efforts being made to encourage business firms to modernize their equipment.

Effects on underwriters

Underwriters and dealers may be expected to discourage security flotations while interest rates are adjusting to higher levels:

Underwriters and security dealers are important in the money and capital market, and their responses to credit tightness in turn affect the availability of credit. They are particularly sensitive to changes in interest rates because they customarily carry a large inventory of securities in the process of distribution. They risk large losses if they are holding large amounts of securities in a period of rising interest rates, since they may not be able to sell them except below cost or may have to carry the securities for some time on borrowed money. Thus, underwriters and dealers may be expected to carry securities less readily and hence to discourage security flotations while interest rates are adjusting to higher levels. When yields are stable or are expected to fall, they will be more likely to encourage such flotations.

Effects on nonbank lenders

With tightening credit, according to the Board's statement, life insurance companies, mutual savings banks, and savings and loan associations will be less willing to make any but the best grade loans. When credit is tightening, or an increase in interest rates is expected, projects requiring long-term credit may be deferred:

A tightening in credit and the accompanying increase in interest rates will significantly affect lenders and investors

³ "Influence of Credit and Monetary Measures on Economic Stability," Federal Reserve Bulletin (March 1953).

who operate primarily in the long-term credit market, including life insurance companies, mutual savings banks, savings and loan associations, and pension funds. They will become less willing to make any but the best grade loans and investments. They will generally exercise greater caution in accepting marginal applications for credit.

* * * * *

In recent decades the flow of savings to nonbank institutional lenders, particularly insurance companies, has been increasing rapidly and the size of the investment problem of these lenders has grown accordingly. In order to insure the ready placement of funds regularly becoming available for investment from new savings and from repayment of old loans, the major savings institutions have developed techniques for committing their funds in advance to corporate, mortgage, and other borrowers. Such commitments make it possible for potential borrowers to proceed with projects which they might not undertake without assurance of financing on satisfactory terms. But nonbank lenders will hesitate to commit themselves beyond the funds they expect to have coming in if they fear that interest rates may rise in the near future and that they may therefore have to sell securities at a loss to meet future commitments. As a result, when credit is tightening, some proposed projects requiring long-term credit may be deferred because a financing commitment cannot be arranged.

In our annual report last year we urged abandonment "without reservation" of the "bills only" policy. We then expressed an apprehension that the monetary authorities had dropped "bills only" in name only (p. 39). A year later the evidence suggests that our apprehension was more than justified. We can only repeat—with a sense of disappointment and frustration—our recommendation of last year:

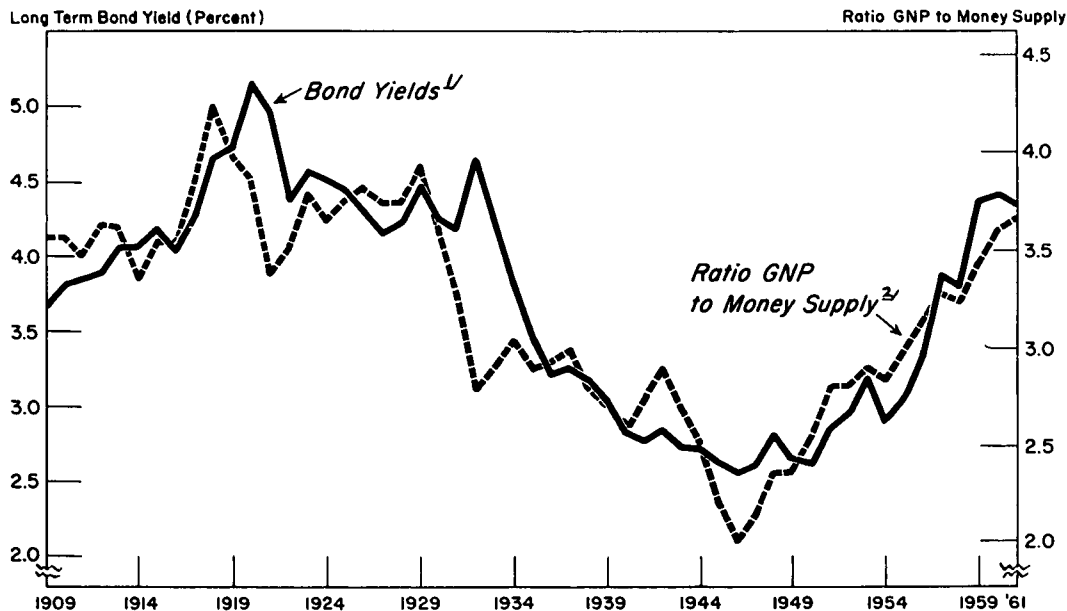
* * * that the Federal Reserve take the steps normally taken by central banks to bring down interest rates, for the purpose of reducing interest rates to the lowest levels that our international balance-of-payments position permits, which means putting particular pressure on long-term interest rates (report of the Joint Economic Committee on the January 1961 Economic Report of the President, p. 38).

We think that the Board of Governors in 1953 gave a correct analysis of the effects of increasing long-term rates. If the administration's hopes for a modest, continuing rate of economic recovery and an increased rate of plant modernization to improve our international competitive position are to be realized, more affirmative assistance from the monetary authorities must be forthcoming.

CREDIT AVAILABILITY VERSUS INTEREST RATES

Over the past decade, students of monetary matters have turned increasing attention to measures and techniques which help in assessing the degree of credit ease or tightness prevailing at a particular time. This is in recognition of the fact that changes in supply-demand re-

CHART 8
**RATIO OF GNP TO MONEY SUPPLY
 AND LONG-TERM CORPORATE BOND YIELDS, 1909-1961**



¹Percentage yield on corporate high-grade long-term bonds from 1909-36, from F.R. Macauley, "Bond Yields, Interest Rates, Stock Prices" (NBER: 1938), for 1937 to date annual averages of Moody's Aaa bond yields.

²Gross National Product in millions of dollars divided by demand deposits adjusted plus currency outside banks.

Source: Based on data, given in Hearings, Employment Growth, and Price Levels, p. 3442.

relationships for money may not, for brief periods at least, be reflected in changes in interest rates. Thus, a bank may find that it has large amounts of loanable funds one day and very little the next, but it is hardly likely to boost its loan rate to customers on the second day, merely because of this. Much the same is true of the whole banking system. Indeed, the record shows many periods when the banks' prime loan rate has remained unchanged for a year or more, although supply-demand relationships have altered substantially during the period.

This is true even more of long-term interest rates. A reference to chart 8 will indicate the tendency for changes in long-term interest rates to lag behind (and sometimes lead) changes in supply-demand relationships for money. The chart compares annual averages of market yields on Moody's triple-A bonds for the years 1909 through 1961 with "income velocity," that is, the ratio of gross national product (in current prices) to the money supply (demand deposits in commercial banks plus currency in circulation). The chart suggests a close correlation between long-term interest rates and the ratio of GNP to money supply. Moreover, despite all the emphasis that has been placed on changes in business and banking practices which are thought to have economized the use of money, and thus increased the velocity of money, the chart suggests that changes in velocity have been the result largely of temporary changes in supply-demand relationships for money rather than of changes in the Nation's basic, secular requirements for money. Even so, the chart reflects some long lead and lag times between changes in these relationships and changes in bond yields, suggesting that credit availability at a given moment can be quite different from that suggested by long-term interest rates.

Free reserves maldistributed

It is against this background that much has been said about easy credit availability during 1961—and more recently. Chairman Martin and others have pointed especially to the fact that banks have been in a net free reserve position to the extent of about one-half billion dollars, throughout the recovery period. This tends to suggest that the Federal Reserve has made credit available, notwithstanding the fact that interest rates remained near their postwar peak during the decline and have risen during the recovery. On the face of it, net free reserves of one-half billion dollars would seem to mean that the banks had relatively large unused lending power and that the System had thus done its part toward providing for money expansion and a reduction in interest rates.

Actually, these net free reserves provided for very little expansion of credit. The reasons in brief are: First, the unused reserves—practically all in the country banks—are scattered in many isolated pockets where they are unlikely to be used; second, changes in Federal Reserve regulations over the past 18 months now permit the banks to count their vault cash against their reserve requirements with the Federal Reserve. This has distorted past reserve relationships and changed whatever significance might have been attached, in the past, to a given quantity of free reserves.

Throughout 1961 substantially all of the net free reserves were in the country banks. The central Reserve city banks and the Reserve city banks have had almost no excess reserves and have also done almost no borrowing. With a 3-percent discount rate prevailing

throughout the year, it may be assumed that few of these banks would try to borrow even when otherwise eligible, because of temporary losses of reserves.

TABLE 7.—Reserves and borrowing of member banks, by classes

[Average daily figures in millions of dollars]

1961	Excess reserves			Borrowings			Free reserves		
	Central reserve cities	Reserve cities	Country	Central reserve cities	Reserve cities	Country	Central reserve cities	Reserve cities	Country
January.....	30	101	614	4	14	31	26	87	583
February.....	41	67	546	44	57	36	-3	10	510
March.....	19	58	469	9	23	38	10	35	431
April.....	58	60	500	2	21	33	56	39	467
May.....	3	54	491	20	36	40	-17	18	451
June.....	46	83	483	1	17	45	45	66	438
July.....	12	64	505	5	8	38	7	56	467
August.....	19	57	527	11	13	43	8	44	484
September.....	9	63	518	5	13	19	4	50	499
October.....	15	26	466	27	18	20	-12	8	446
November.....	40	57	516	39	44	22	1	13	494
December.....	17	64	503	79	39	31	-72	25	472

1 Preliminary.

Source: Federal Reserve Bulletin.

Effects of "vault cash"

Putting the vault cash provisions into effect, as the Federal Reserve has done in the past few years, has decidedly shifted total bank reserves to the country banks. The first regulation on this matter was effective December 1, 1959, and permitted certain percentages of the banks' vault cash to be counted against required reserves. Other changes were made in August and September 1960 amending the amounts, and, finally, effective November 24, 1960, the Federal Reserve issued new regulations permitting the banks to count all of their vault cash against their reserve requirements. This has meant that a disproportionate percentage of the new reserves were made available to the country banks, because these banks hold a disproportionately large percentage of the vault cash.

Whereas, at the end of 1956 the country banks had 30.3 percent of all the bank reserves in the System, by the end of 1961 their proportion had jumped to 34.3 percent.

TABLE 8.—Bank reserves of member banks—all banks and country banks—1956-61

[Dollars in billions]

Dec. 31	All member banks	Country banks	Proportion in country banks (percent)
1956.....	19.5	5.9	30.3
1957.....	19.4	5.9	30.4
1958.....	18.9	5.9	31.2
1959.....	18.9	6.0	31.8
1960.....	19.3	6.6	34.2
1961.....	20.1	6.9	34.3

Source: Federal Reserve Bulletin.

Finally, there is still an additional reason not yet discussed why the country banks have not fully utilized their excess reserves. These banks tend to maintain a certain percentage of reserves for safety's sake, whether or not required to do so. Furthermore, when these banks are accustomed to thinking of a certain minimum as a safe level, some of them tend to maintain such a minimum, even after changes in regulations permit them to keep a lower minimum.

Thus, it may be noted that on June 23, 1958 (before the vault cash regulations reduced reserve requirements), the country banks had effective reserves amounting to 11.7 percent of their deposits. This amount included vault cash, which may be considered as an effective reserve although at the time it was not permissible to count it against required reserves. By June 14, 1961, all reserves held by the country banks, including vault cash, amounted to only 9.6 percent of their total deposits. Thus, although the country banks have utilized their vault cash to a rather surprising degree, we may assume that some of these have tended to hold excess reserves in the interest of safety.

TABLE 9.—Reserves, balances with Federal Reserve banks, and vault cash of country banks

[Millions of dollars]

	June 23, 1958	June 14, 1961
Deposits subject to reserve requirements:		
Demand.....	35,370	37,743
Time.....	24,315	30,542
Total.....	59,685	68,285
Effective reserves:		
Reserves with Federal Reserve banks.....	5,623	5,045
Vault cash ¹	1,395	1,496
Total effective reserves.....	7,018	6,541
Percent effective reserves to deposits.....	11.7	9.6

¹ Not eligible as reserve prior to actions Dec. 1, 1959–Nov. 24, 1960.

Source: Federal Reserve Bulletin.

TABLE 10.—Cash and reserves of member banks by classes, 4 weeks ending Dec. 27, 1961¹

	All member banks	Central reserve city banks	Reserve city banks	Country banks
Millions of dollars				
Balances with Federal Reserve banks.....	17,193	4,520	7,456	5,217
Currency and coin.....	2,829	284	870	1,675
Total reserve held.....	20,022	4,804	8,326	6,892
Required reserves.....	19,460	4,778	8,267	6,415
Excess reserves.....	562	26	59	477
Borrowed reserves.....	216	88	78	51
Net free reserves.....	346	-62	-19	426
Percentage				
Percent currency and coin is of:				
Total reserves.....	14.1	5.9	10.5	24.3
Required reserves.....	14.5	5.9	10.5	26.1
Percent balance with Federal Reserve banks is of:				
Total reserves.....	85.9	94.1	89.5	75.7
Required reserves.....	88.4	94.6	90.2	81.3

¹ Average daily figures.

Source: Federal Reserve Bulletin.

MONEY POLICIES FOR ECONOMIC RECOVERY

The Council of Economic Advisers has not been so bold as to suggest that money policies should be eased, but they have ventured the hope that they will not be tightened as the expected recovery proceeds.

On the other hand, the two officials who have more authority than any other individuals in setting interest levels, seem to have abandoned all hope of lower rates and resigned themselves to still higher levels. Secretary Dillon told the committee: "I would assume that as business advances, should it advance as well as we expect it to, there could be some very moderate increases in interest rates * * *" (hearings, p. 140). Chairman Martin, when asked to comment on a statement of the Council of Economic Advisers that the behavior of interest rates during the past year may have signaled the ending of a 10-year upward trend, replied that he would hesitate before accepting that conclusion (ibid., p. 193). Naturally market expectations, which have an influence themselves, have soared.

It is our view that present money policy is much too stringent, and that the Federal Reserve should immediately begin working toward an easier credit policy and toward a lower level of interest rates. It is manifest that the one-half billion dollars of net free reserves that have been so much emphasized have not, and will not, permit any substantial increase in credit availability. It is obvious that no substantial effort has been made either by the Federal Reserve to lengthen the maturity of its holdings of Government securities or by the Treasury to shorten the maturity of the outstanding debt. It is also manifest, we think, that the balance-of-payments problem has been overplayed as a reason for pursuing a tight-money policy, for which Federal Reserve authorities have shown a persistent preference, beginning long before there was a balance-of-payments problem.

Other methods, which will be discussed in the next section, are available for persuading foreign central banks to hold their excess dollar reserves, to the extent that these banks may need persuading.

CONCLUSIONS

Monetary and debt management policies are capable of making, and should make, substantial contributions to economic recovery. The preceding discussion points out that they have not done so in the recovery to date. It may be said that in the 1960 downswing the switch from a policy of contraction to one of expansion was well timed; but however well timed, the action was not sufficiently vigorous.

From the standpoint of long-run growth, monetary policy since 1951 has been a drag on the economy. Currently, Federal Reserve authorities seek to justify what appears to be a continuing policy of tight money by bringing in the balance-of-payments problem. Their arguments first ran in terms of keeping short-term interest rates relatively high in order to mitigate the outflow of short-term funds; but in practice long-term rates have been boosted as well. Our conclusions and recommendations are set out in detail in the final section of this report.

BUDGET BALANCING FOR ECONOMIC STABILIZATION

The effect of economic fluctuations on Federal tax receipts has long been recognized, but the significant influence that Federal budgetary policy has on the economy has been given serious attention only in the past few decades. Before World War I and even in the 1920's and into the 1930's, when the costs of past wars and national defense were slight, Federal activities were a small part of the total economy, and their economic impact was not viewed as a matter of great concern. In that environment, the budget was viewed largely as a measure of the Government's performance in handling its own affairs with prudence and efficiency. The primary test was the ability of policymakers to perform the necessary public services and tasks of the state without spending more than tax receipts. In the case of a general decline in activity, this test required that expenditures be trimmed to match falling receipts.

STABILIZING EFFECTS OF THE FEDERAL BUDGET

With better economic knowledge and the large growth of Government activities necessitated by national security and public welfare considerations, the perversity of such a policy became evident. Any reduction in Federal outlays during recession diminishes the flow of incomes to the private sector and intensifies the decline in activity. Unless they are accompanied by tax cuts, reductions in expenditures result in a loss of jobs and a shrinking of incomes and tax revenues—all combining to make an endless chain of vain efforts to keep the budget in balance. Similarly, greater outlays, or lower tax rates, in prosperous periods can add to inflationary pressures.

Such accentuation of cyclical fluctuations through the activities of the Federal Government has become clearly recognized as imprudent and unsound policy. It is now generally recognized that the automatic fluctuations in Government receipts in response to changing levels of economic activity have beneficial stabilizing effects on the general economy. Tax receipts are closely related to private income. Therefore, tax receipts will tend to fall during periods of relatively slack activity in the economy and will tend to rise in periods when private incomes are high. In essence, proportionately lighter tax burdens are imposed upon individuals and businesses in times when private incomes are low. If tax burdens are reduced in these slack periods, relatively more income is left with individuals and businesses. Therefore, individuals and firms do not need to restrict their own purchases of goods and services as much as would be necessary if tax liabilities were maintained. Similarly, in inflationary periods tax receipts will tend to rise as incomes rise and thereby drain off purchasing power that might otherwise be used to accentuate inflationary pressures.

A business view

One of our witnesses, representing a business research organization (the Committee for Economic Development), which has been at the forefront in encouraging fiscal policies to promote high employment and economic stability, stated his organization's agreement with these principles:

(a) Looking at the budget surplus as it would be under conditions of high employment, as a guide to budget policy;

(b) Setting expenditure programs and tax rates so they would yield a moderate surplus at high employment;

(c) Accepting actual departures from this target surplus, below in recession and above in boom, that result from automatic responses of tax yields and expenditures, as beneficial stabilizing influences on the economy;

(d) Accompanying this budget policy with a strong, flexible use of monetary policy;

(e) Being prepared, in some circumstances, to take further discretionary action in the budget, notably temporary tax reduction in recessions.

Also we have recommended, as the Economic Report does, that the national income budget, rather than the cash or the administrative budget, should be used in measuring overall budget policy (hearings, p. 656).

SIGNIFICANCE OF THE THREE FEDERAL BUDGETS

One of the most useful innovations in the analysis of Government budgets has been the development of procedures for estimating Government receipts and expenditures so that it is possible to set up a budget to represent the receipts and expenditures as they would work out if the economy were working continuously throughout the budget period at full employment. For the first time, the concept of the full employment receipts, expenditures, and surplus or deficit has found its way into the President's economic messages to the Congress, particularly into the Economic Report. These developments represent significant progress, for which the administration is to be commended.

This newer method of estimating the impact of Government fiscal operations on the general economy relates, moreover, not to the usual "administrative" or "cash" budgets but to what is now called the income-and-product-account budget. This latter is not constructed just to show how much funds need to be appropriated, or the total cash which Federal fiscal operations will take in or pay out. Rather, the income-and-product-account budget seeks to measure the direct effect on the economy of all Federal fiscal operations, and at the time when these effects occur, not just when bills are submitted and paid.

Since it is important to make a clear distinction among these three forms of budgets, a brief review may be in order.

Administrative budget

The administrative budget has been developed in the form most useful to the appropriations committees of Congress. Expenditures are included in this budget because they are made from funds which

have been considered by the Congress to be Government owned. Receipts are shown on a net basis, after refunds, to indicate only the amounts that will be available to meet expenditures. Many items, such as the receipts and expenditures of the Post Office Department and other public enterprises, are shown in the administrative budget only as net expenditures. These enterprises generally have the authority to spend against the receipts they collect, and Congress provides Government-owned money solely to meet any net deficits. Many other operations of the Government, such as trust funds and Government-sponsored enterprises, are largely ignored in the administrative budget because virtually no Government funds (technically defined) are required in these operations.

Cash budget

The cash budget is designed primarily to show the cash flows between the Federal Government and the private economy (including State and local governments). It differs from the administrative budget in two principal ways: (1) The cash budget excludes transactions between agencies of the Government; for example, interest and other payments between the Treasury Department and the social security and other trust funds; and (2) the cash budget includes various transactions between the Federal Government and the private economy which involve the U.S. Treasury, though the amounts do not technically qualify as "Government-owned funds" and therefore are not reflected in the administrative budget. The principal amounts included in the cash budget, but not in the administrative budget, are the transactions between Federal trust funds and the public. For example, the cash budget includes as receipts all employment taxes which enter social security trust funds and includes as expenditures all payments of social security benefits.

Income-and-product-account budget

The income-and-product-account budget is provided in the national income and product accounts developed by the Commerce Department. Like the cash budget, it includes both the transactions of trust funds and some Government enterprises as well as administrative budget receipts and expenditures. It excludes financial items and exchanges of existing assets—transactions which affect liquidity in the private economy but have no direct effect on production or national income. It also excludes loans and guarantee programs of the Government, which do have an impact on the economy.

While both the cash budget and the administrative budget generally reflect receipts and expenditures in the year when cash changes hands, the income and product budget attempts to show receipts at the time when tax liabilities accrue, and expenditures for purchases of goods and services are shown as of the time the goods and services are produced and delivered.

CHANGES IN THE THREE BUDGETS COMPARED

Table 11 compares anticipated receipts and expenditures for the three different budgets for fiscal 1963, giving also the indicated changes from fiscal 1962. In addition, the table also shows the Council's estimates of what receipts and expenditures in the national income budget would be at an average rate of unemployment of 4 percent

during each of the 2 fiscal years, instead of the unemployment rates actually prevailing and expected to prevail.

Thus it may be noted that the administrative budget for fiscal 1963 anticipates expenditures of \$92.5 billion. This is an increase of \$3.4 billion over fiscal 1962, of which \$2.6 billion is for defense and space affairs, \$0.4 billion for increased interest charges on the Federal debt, and \$0.4 billion for all of the other functions of the Government combined.

Whereas the administrative budget for fiscal 1962 ran a deficit of \$7 billion, the administrative budget for fiscal 1963 is, as has been widely reported, in balance. More precisely, it is expected to run a small surplus of approximately \$0.5 billion.

TABLE 11.—Various Federal budget totals for the fiscal years 1962 and 1963

(In billions of dollars)

	1962 estimate	1963 estimate	Change from 1962 to 1963
Administrative budget:			
Expenditures:			
National defense.....	51.2	52.7	1.5
International affairs and finance.....	2.9	3.0	.1
Space research and technology.....	1.3	2.4	1.1
Subtotal.....	55.4	58.1	2.7
Interest.....	9.0	9.4	.4
Other expenditures, net.....	24.7	25.1	.4
Total budget expenditures.....	89.1	92.5	3.4
Receipts.....	82.1	93.0	10.9
Cash budget:			
Expenditures.....	111.1	114.8	3.7
Receipts.....	102.6	116.6	14.0
National income budget:			
Expenditures.....	106.1	111.9	5.8
Receipts.....	105.6	116.3	10.7
National income budget at 4-percent unemployment levels:			
Expenditures.....	1105.3	1111.6	16.3
Receipts.....	1113.1	1120.3	17.2
Gross national product.....	547.5	592.5	45.0

¹ Estimates are shown computed to the nearest tenth of a billion to maintain internal consistency and the proper proportional change from year to year. This does not imply, however, that the estimates are believed to be accurate to $\frac{1}{10}$ of a billion dollars.

Source: "The Budget in Brief," fiscal year ending June 30, 1963 (pp. 6 and 8). Council estimates of high employment budget, and gross national product estimates compiled by the committee staff.

The cash budget, on the other hand, anticipates receipts of \$116.6 billion in fiscal 1963 and expenditures of \$114.8 billion. The cash budget was also in deficit in fiscal 1962. The substantial surplus position (\$1.6 billion) expected in 1963 is due largely to (a) net increases in payments into the trust accounts because of increased employment, and (b) higher unemployment compensation and social security tax rates.

As previously discussed, however, for purposes of judging the influence of the budget on the general economy, we are most interested in the national income budget. Here we may note that whereas this budget was almost in balance in fiscal 1962 (\$0.5 billion deficit), for fiscal 1963 it is expected to run a sizable surplus (\$4.4 billion). Thus, if the estimates are correct, Federal budget operations in fiscal 1963 will have a somewhat repressive effect on the general economy, even though the administrative budget is in balance.

Finally, coming to the national income budget as it would appear at a 4-percent rate of unemployment, we may note that for fiscal 1962

the surplus would have been \$7.8 billion, whereas in fiscal 1963 it would be \$8.7 billion. In addition to the absolute size of this surplus, it is also important to note that receipts will be increasing in fiscal 1963 a great deal more rapidly than expenditures. Elsewhere we point out that other estimates suggest that the 4-percent unemployment surplus in the national income budget may be substantially higher than the Council has estimated, because of even more rapid increases in receipts than the Council estimates.

REPRESSIVE EFFECT OF 1963 BUDGET

It is now anticipated that GNP will reach an annual rate of about \$600 billion (in 1961 prices) by the end of fiscal 1963 and that at this annual rate unemployment will fall to approximately 4 percent of the work force by the end of that fiscal year. If GNP could be increased more rapidly to levels that would reduce unemployment to 4 percent of the work force throughout the entire fiscal year 1963, what amount of "full employment" budget surplus would occur? Federal expenditures, on an income-and-product-account basis, would apparently amount to about \$111 billion, approximately 18.6 percent of the GNP at the 4-percent unemployment level, according to the projections made by the Council of Economic Advisers. The comparable figures were about 18.3 percent in fiscal 1961 and about 17.3 percent in fiscal 1957—the latter just prior to the contraction, from which the economy has not yet fully recovered. Hence, as a result of various national and social needs, expenditures have increased somewhat as a percentage of the 4 percent unemployment GNP.

The high employment "surplus"

At the same time, however, if 4-percent unemployment existed throughout fiscal 1963, the Council has estimated that Federal revenues in the national income accounts would amount to approximately \$120 billion, about 20 percent of the high employment GNP. This is the same as in fiscal 1961 and compares with about 17.2 percent in fiscal 1957.

Hence, if the Nation were at a 4-percent unemployment level throughout fiscal 1963, the income-and-product budget would show a surplus of about \$9 billion, approximately 1.5 percent of the 4 percent unemployment GNP. (As previously stated, the "surplus" in the first half of calendar 1963 will be running at the rate of \$10 billion a year.) The comparable figures were 1.8 percent in fiscal 1961, and 1.4 percent in fiscal 1957. The actual projected surplus in the national income and product account is only 0.7 percent of the anticipated GNP. Other estimates suggest that the high employment surplus in fiscal 1963 might be as large as 2.5 percent of the high employment GNP.

A high employment surplus amounting to 1.5 to 2.5 percent of high employment GNP would, under present noninflationary conditions, raise significantly the proportion of the total flow of incomes through the economy that is set aside for savings, without necessarily insuring a parallel rise in investment. In fact, it seems possible that the additional flow of funds to the Federal Government would—either by adding to the Treasury cash balance or by returning funds to private savers via debt retirement—choke off recovery short of 96-percent employment by reason of holding the total of consumption and investment expenditures below 96-percent employment levels.

Obviously this does not mean that the Federal Government cannot, under any circumstances, run a high employment surplus as large as $1\frac{1}{2}$ percent or more of the GNP. Indeed, under the inflationary conditions of 1947-48 and 1950-51 the Federal Government surplus ran to about 5 percent of the GNP, helping to reduce inflationary pressures. As we have repeatedly pointed out, the Government should set its budget policies so as to produce an excess of revenues over expenditures at high employment and make retirements of the public debt under high employment conditions.

But even a good policy can be carried too far. As we pointed out a year ago, we are seriously concerned lest our revenue system be capable of generating too large a Federal surplus at high employment, in which case employment high enough to produce any surplus will likely not be achieved.

CHANGES IN DEBT LEVELS

One of the concomitants of economic growth in this country has been a continuous addition to financial investment—and hence, a continuous addition to debt. The Nation has lent more—and hence borrowed more—as the Nation has grown wealthier. At the same time our economy has become more specialized, the needs to obtain money and put it to active use have increased.

Total debt and GNP have risen together

Total debt in the society has tended to remain relatively constant as a percentage of GNP. In other words, total debt has tended to rise, step by step, with increases in GNP. Table 12, which groups years since 1922 in rough correspondence with the business cycles that have occurred since that date, indicates that total debt as a percentage of GNP has varied within about 5 percentage points, plus or minus, from the 41-year average, with the notable exception of the 1930 decade. This is not surprising, of course, in view of the fact that as GNP has tended to rise, savings levels have also risen and made more funds available for borrowing and for productive use in the economy. In the period of the great depression, production and incomes fell so drastically that, despite widespread bankruptcies, the debt ratio increased to unusually high levels.

TABLE 12.—Ratio of total public and private debt to gross national product

[Dollar amounts in billions]

	Average debt	Average GNP	Ratio— percent
1916-21.....	\$117.8	\$73.3	162
1922-24.....	150.2	81.3	185
1925-27.....	173.6	94.2	184
1928-33.....	186.4	80.6	231
1934-38.....	183.9	79.8	231
1939-46.....	309.8	162.9	190
1947-49.....	472.1	248.9	190
1950-54.....	602.0	336.5	179
1955-57.....	757.0	413.3	183
Average ratio, 1916-57.....			190
Average ratio, 1916-57, excluding 1930-34.....			184

Source: Marshall A. Robinson, "Debt and Economic Growth," in *Money and Economic Activity, Readings in Money and Banking*, Lawrence S. Ritter (ed.), Houghton, Mifflin Co. (1961), p. 41.

Federal debt declining relative to GNP

The composition of total debt over time has changed. While public debt (Federal, State, and local) has risen in the postwar period, the percentage increases have been less than the percentage increases either in private debt or in GNP. Chart 9 indicates these relationships. In effect, the public sector has been financing its current and capital outlays more out of current income than has the private sector. Moreover, since the economy is growing more rapidly than public net borrowing, the significance of the public debt relative to total economic activity is actually declining. (See chart 9, p. 40.)

RECOMMENDED FISCAL POLICY ADJUSTMENTS

The President has recommended legislation designed to supplement the automatic stabilizing features in the budget with changes in business conditions. These recommendations include (1) standby authority to make reductions in personal income tax rates, (2) standby authority to expand public works programs, and (3) adjustments in the unemployment compensation program. The President has also proposed an investment tax credit as a permanent stimulus to investment. Each of these proposals requires careful consideration.

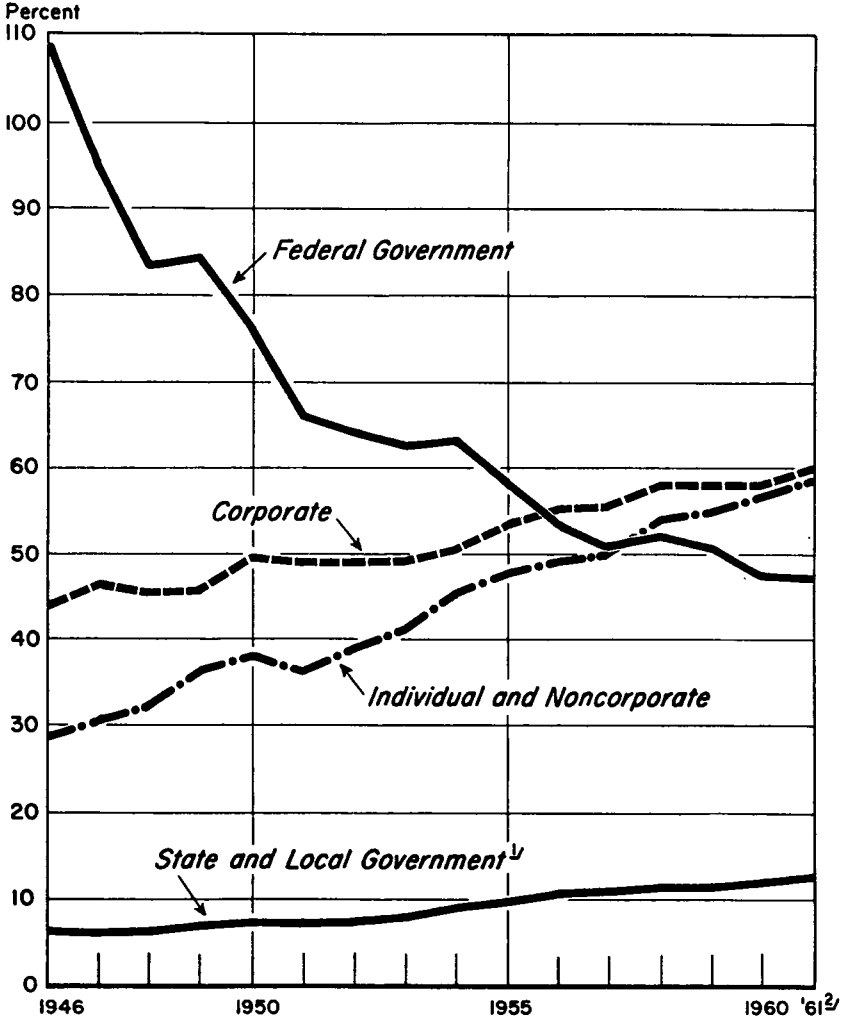
Proposed temporary tax cut authority

Under the proposed authority to reduce personal income tax rates, the President would be given the power to adjust all individual income tax rates downward by as much as 5 percentage points, with similar adjustments in withholding rates and payments of estimated taxes. The steps called for are to (1) submit the proposal to Congress; (2) have the proposal take effect 30 days after submission unless rejected by a joint resolution; (3) have the proposal remain in effect for 6 months unless changed by the same process; (4) have the tax change take effect automatically if Congress is not in session, but have the change terminate 30 days after Congress reconvenes.

In terms of economic principles, this proposal constitutes an excellent means by which to make the present automatic changes in our tax structure even more effective as a stabilizing influence in the economy. Automatic tax adjustments, as we have indicated above, are powerful forces in influencing the level of private demands for goods and services. The automatic changes in tax burdens with

CHART 9

NET PUBLIC AND PRIVATE DEBT AS A PERCENT OF GROSS NATIONAL PRODUCT 1946-1961



^{1/} For June 30. ^{2/} Estimated by Council of Economic Advisors.

Source: 1962 Economic Report of the President.

changes in income levels have proved to be generally beneficial to the society in both recessions and boom periods, and it seems highly desirable to make these adjustments even more effective by discretionary changes. This committee has long endorsed the principle of using flexible tax receipts to counteract cyclical fluctuations. We

believe that the President's proposal represents a potentially significant step forward, and we hope that the Congress will give serious and immediate attention to the suggestion.

Alternative proposals

Witnesses before the committee have posed objections to the exact form of the present proposal—though not related to the economic substance of the proposal—and have suggested alternative approaches that might be equally effective. The practical objection to the proposal is that it involves a transfer of legislative function to the Executive, and a transfer of the Executive (veto) function to the Legislature—an arrangement carrying doubtful consequences. Recognizing the urgency of prompt action, however, these witnesses have suggested that Congress enact legislation to set out the conditions and terms of a temporary tax cut such as it will wish to make, when asked to act quickly; with the ground rules thus established, Congress should be able to act quickly on a request for a temporary tax change and, indeed, to initiate such an action if need be. We believe that such an alternative procedure would be practicable. It is certainly conceivable that Congress would act on a tax reduction measure within a shorter period than the proposed 30-day veto.

Among the questions Congress would consider in framing such "ground rules" would inevitably be those pertaining to the duration and size of the tax cut and how it is to be distributed among income tax brackets.

Alternative income brackets

The President has recommended an across-the-board cut of 5 percentage points for all income tax brackets. The Commission on Money and Credit, on the other hand, recommended a reduction in the first-bracket rate. The rate in this bracket is, of course, paid by all taxpayers on the first \$2,000 of income (\$4,000 for joint returns). But with the change recommended by the Commission on Money and Credit a smaller proportion of the gains to taxpayers would go to the higher income families, and the reduction would thus be more of a stimulant to consumer purchases. The CMC proposal would distribute about 19 percent of the gain to individuals with incomes of \$10,000 or more, while the across-the-board reduction would give them twice as much, or almost 40 percent of the total. Another alternative would be to split the first bracket and apply a lower tax rate on the portion of incomes in the new first bracket. The distribution under all three alternatives is given in the following table:

TABLE 13.—*Distribution of tax savings by income classes under alternative tax reduction methods*

Income group	Percent of total returns	Percent of total tax reduction		
		Across-the-board reduction	First-bracket reduction	Split first-bracket reduction
0 to \$5,000.....	39.1	12.7	18.1	23.1
\$5,000 to \$10,000.....	48.9	47.6	63.0	61.9
Above \$10,000.....	12.0	39.7	18.9	15.0
Total.....	100.0	100.0	100.0	100.0

Standby public works authority

Under the standby authority to expand public works expenditures, the President could commit up to \$750 million for direct Federal expenditures, another \$750 million for grants-in-aid to State and local governments, a further \$250 million in loans to States and localities that might not be able to meet their share of project costs, and a final \$250 million which he could distribute on a discretionary basis. Direct Federal expenditures would be limited to projects previously authorized by the Congress. The program could be initiated within 2 months after the seasonally adjusted unemployment rate (1) had risen in at least 3 out of 4 (or 4 out of 6) months, and (2) had risen to a level at least 1 percentage point higher than its level 4 (or 6) months earlier. The program would be terminated automatically within 12 months unless extended by the Congress, although the President could terminate the program within a shorter period.

The problem of using public works programs to mitigate fluctuations in economic activity has been extensively examined in the past. It would appear, on the basis of past experience, that typically the lags between decision-making and the economic impact of public works programs are almost always such that the impact occurs at inappropriate times. Moreover, the initial stimulus may be largely in industries where wage and price structures are such that the effects are felt through increases in prices rather than in employment.

The new proposal seeks to avoid these difficulties. In particular, the proposal anticipates acceleration in projects which can be initiated quickly. The economic impact will be concentrated in short periods. In general, therefore, we endorse the proposal to make use of such public works to mitigate economic declines. In fact, this committee urged in its annual report of last year a proposal quite similar to the one the President is now advancing. Public works projects can bolster the economy at the time when stimulus is needed and at the same time contribute to the provision of certain necessary State and local functions, such as fire protection, medical services, sewage disposal, etc. The President already has some power to adjust the timing of public works programs, and this additional legislation would simply increase his effectiveness in using these powers.

Expansion of unemployment compensation

The period of unemployment compensation would be extended by as much as 13 weeks for workers who have had at least 3 years in covered employment. The period of benefits for all insured workers would also be extended when unemployment is widespread. The suggestion has been made that this latter proposal would come into effect when insured unemployment has reached 5 percent and the number of benefit exhaustions in a 3-month period has reached 1 percent of insured employment.

The administration's program also calls for legislation to extend the unemployment compensation program to an additional 3 million workers not now eligible to participate in the program. It would require States to meet higher standards with respect to the amount of weekly benefits and provide that those with heavy insured unemployment could receive higher insurance grants. A State would not

be allowed to deny compensation to claimants undergoing approved training.

We feel strongly that all of these changes are in the right direction. Unemployment benefits have not risen commensurately with the increases in average weekly earnings and have, therefore, put an increasingly heavy penalty in real terms upon families hit by unemployment. It is well recognized that unemployment compensation can provide a powerful countercyclical influence. It can support consumption demands in downturns. It is correlated directly with unemployment. It diminishes rapidly in prosperous times and can have a stabilizing influence in inflationary periods. All of the President's proposals are designed to make unemployment compensation more adequate in today's economy. These proposals would make the unemployment compensation system a more potent countercyclical device and ease the suffering of those families most adversely affected by cyclical declines.

Tax stimulus to investment

The administration has also recommended legislation to provide a stimulus to investment. This proposal in its present form would allow firms to take a credit against income tax for new investments and for purchases of up to \$50,000 of used property. The credit generally would be equal to 8 percent of the purchase price of domestic investments.

The growth features of this proposal are discussed elsewhere in this report. However, we are concerned about the cyclical features of the proposal. It is well known that investment tends to be high in boom periods and low in recessions. The effect of an investment credit will be, therefore, to lower Government revenues in times when revenues should be rising to curb inflationary pressures, and to make Federal revenues relatively higher in recession periods, when Government receipts should be reduced. Moreover, the investment credit will tend to accentuate the instability of investment by encouraging overinvestment in boom periods. This, in turn, may actually retard growth rates. For example, there was a very substantial increase in the rate of investment immediately after the adoption in 1954 of the accelerated methods of depreciation for tax purposes. However, as the report of the Council of Economic Advisers points out, capital stock for the entire period from 1954 to 1960 actually grew at a lower rate than it did in the pre-1954 period.

This procyclical feature of the proposed investment tax credit should have serious consideration by the committees of Congress that will be acting on the proposal. A parallel can be drawn in this connection between the public works proposals recommended by the President and the investment credit. Both of these proposals can lead to increases in demands for capital goods, the one in the form of public capital and the other in the form of private capital. This suggests that the investment credit proposal might appropriately adopt the principles and limitations of the proposed standby capital improvements authority. Both could be brought into operation at the same time and only under the same conditions. In effect, the adoption of this change would involve stimulating private investment in recession periods and eliminating the stimulus at times when it is not necessary.

Other budget proposals

There are still several areas in which some recent economic ideas have not been converted to budgetary practice. The budget still makes relatively little assessment of capital outlays by the Federal Government. The significance of these expenditures is that they provide services to the Nation for a period of years after the initial expenditures are made. Examples would include the construction of dams, highways, bridges, airports, etc., as well as investments in education and other human resources. It would be quite useful if the budget measured the services being derived from these types of outlays. Such a practice would be completely in accord with usual accounting procedures. A railroad company would certainly not include the costs of purchasing engines and cars as current expenses. These capital acquisitions increase productive capacity for a period of years into the future. Similarly, public capital items are also productive over a long time.

The fact that the Federal budget includes all capital expenditures along with current expenses in the year when the outlays are made tends to distort comparisons of our budget with those of foreign countries.

Another improvement in budgetary procedures would be to give greater consideration to the economic effects of Government loan and guarantee programs. At present, little attention is given to these programs in the budget except insofar as they represent cash withdrawals from the Treasury. The guarantee and insurance programs, however, can have substantial economic effects without involving cash drains from the Treasury. In essence, Federal loan guarantees are similar to reductions in risk for private lenders and hence have the same types of economic effects as do reductions in interest rates. Analysis of the economic effects of these programs should be provided in the budget.

Under present procedures, the receipts side of the budget is considered by the Congress largely independently of the expenditures side. Moreover, the only congressional analysis of expenditures seems to be on the basis of individual appropriations bills. There is little opportunity for the Congress or the public to consider the overall impact of the budget or the way in which budget amounts change over time or during congressional deliberations each session. As one of our witnesses stated:

These hearings are probably the last moment at which Congress will consider the budget as a whole. Whether or not the budget target proposed by the administration is the correct one, there is no reliable machinery in the Congress that will make the overall results conform either to the administration's target or to some other target consciously chosen by the Congress. The various taxing and appropriating committees of the Congress are already going their separate ways, making the unrelated decisions that will finally determine the budget. We won't even know the net result of all this until a month after Congress goes home. To carry out the purposeful budget policy on which there is growing agreement, more effective machinery in the Congress is needed (hearings, p. 657).

BALANCE-OF-PAYMENTS AND INTERNATIONAL TRADE POLICIES

Recent events in the international field have caused the American people, and the Federal Government, to turn attention to problems of foreign economic policy, perhaps more than at any time in a century. These events have also brought about a new interdependence between our economy and the economies of other nations of the free world. One of these developments is the large and persistent deficit in our balance of payments. Another is the historic strides made by the nations of Western Europe toward integrating their economies, dramatized by the rapid economic growth of the Common Market countries, and most particularly by the challenge which this integration raises to our exports and international payments position.

INTERNATIONAL PAYMENTS AND DOMESTIC POLICIES

Large deficits in our international payments position occurred in 1958, 1959, and 1960, but went largely unnoticed until, in October 1960, a sudden outburst of speculative activity in the European gold markets caught the attention of the American press and the American public. That flurry of activity led to a number of quick actions to limit the flow of dollars abroad, including the tying of foreign aid expenditures to domestic procurement, restrictions on spending by overseas military personnel, new limitations on the amount of duty-free goods that American tourists may bring in from abroad, and, at one time, an order calling home dependents of our military personnel abroad. Despite these and other actions, a deficit in our payments position continues and has become a preoccupation central to all our governmental policies, foreign and domestic.

TABLE 14.—*U.S. balance of international payments, 1959–61*

[Billions of dollars]

	1959 ¹	1960	1961 ¹
U.S. expenditures abroad, total.....	29.7	31.4	32.0
U.S. imports.....	23.5	23.3	23.1
Merchandise.....	15.3	14.7	14.5
Military expenditures.....	3.1	3.0	3.0
Other services.....	5.1	5.6	5.6
Remittances and pensions.....	.8	.8	.9
Government grants and capital outflow.....	3.0	3.4	4.2
U.S. private capital.....	2.4	3.9	3.8
U.S. receipts from abroad, total.....	25.5	28.1	30.2
U.S. exports.....	23.7	27.3	28.3
Merchandise.....	16.3	19.4	19.9
(Other than Government financed)	(2)	(17.6)	(17.5)
Service, investment income, military sales.....	7.4	7.9	8.4
Repayment of U.S. Government loans.....	1.1	.6	1.3
Foreign investments in the United States.....	.7	.2	.6
Balance.....	+0.5	-0.6	-0.6
Consisting of—	-3.7	-3.9	-2.4
Sales of gold ⁴7	1.7	.7
Changes in liquid liabilities to—			
International Monetary Fund.....	.6	.7	-0.1
Other international organizations.....	.1	.3	.3
Foreign central banks and governments.....	.9	1.2	.6
Foreign private banks.....	1.1	.1	.6
Other foreigners.....	.3	-0.1	.3

¹ Preliminary.

² Excludes U.S. subscription to International Monetary Fund.

³ Not available.

⁴ In 1961 includes convertible currencies held by U.S. monetary authorities.

Source: U.S. Department of Commerce, Office of Business Economics.

In harsh terms, it could be said that since the late 1960 "gold rush" our monetary policies have been shaped, not solely by the needs of the domestic economy but largely by the way European bankers are expected to react to a given level of U.S. interest rates. Similarly, large or continuing deficits in the Federal budget must be avoided, it has been suggested, because such deficits alarm European bankers and tend to undermine confidence in the dollar.

In terms of the report of the Council of Economic Advisers:

* * * domestic economic policy must be framed with an eye to the balance of payments. Action to safeguard the international position of the dollar is today an essential part of our policy for full employment and growth.

Such considerations are a new experience for the American people and warrant some review.

United States versus European budgets

We might observe in passing, however, that the nervousness with which foreign bankers are said to view our budget deficits may arise from the fact that the Federal budget follows the unusual practice of counting investments in capital items as "expenses" to be met within the year. Questions raised with the Director of the Budget developed the point that if the same practice were followed in the European government budgets generally reputed to be in balance, many of these would appear to have a deficit. For example, the calendar budget of England would have appeared in deficit in 9 out of the last 11 years, the French budget would have shown a deficit in each of the last 10 years, and West Germany would have had a deficit in 4 of the past 6 years. In contrast, the United States budget over the last 11 calendar years has shown surpluses in 5 years and deficits in 6.

TABLE 15.—*Central Government surpluses and/or deficits for recent years for 4 countries*

Calendar year	United Kingdom (millions of current pounds)	France (billions of current new francs)	Germany (millions of current deutsche mark)	United States (billions of current dollars)
1950.....	611	(¹)	(¹)	0.5
1951.....	-55	-2.40	(¹)	1.2
1952.....	-404	-6.27	(¹)	-6
1953.....	-628	-7.94	(¹)	-7.2
1954.....	-74	-7.56	(¹)	-1.1
1955.....	-42	-8.32	2,221	-7
1956.....	150	-11.72	1,331	5.5
1957.....	-175	-12.21	-2,926	1.2
1958.....	-101	-9.36	-1,755	-7.3
1959.....	-282	-5.48	-3,881	-8.0
1960.....	-453	-3.24	-200	3.5

¹ Figures not available at this time on the same basis.

Source: Preliminary findings of a study prepared by Andrew H. Cant II for Harvard University, financed by the Brookings Institution project of studies in government finance. (See hearings, pp. 101-102)

The large and persistent deficit in our international balance of payments is, on the other hand, quite real. Foreign governments and foreign bankers have reason indeed to be concerned with this matter—and with any other matter threatening the soundness of the dollar.

The events of World War II and since have placed the United States in the role of "world banker," which means not only that U.S. institutions and nationals now finance a large share of the free world's business, but that the dollar has become a major "reserve" currency. Almost every foreign central bank in the free world now holds some of its reserves in dollars so that it can earn an interest return and because the dollar is a widely used international currency.

FOREIGN CURRENCY VERSUS GOLD RESERVES

Under the existing gold exchange standard, countries keep their international reserves partly in gold and partly in one or more of the so-called reserve currencies—usually sterling or dollars. These "reserve" currencies are generally acceptable as means of international payments. So long as foreign central bankers are confident that their dollar reserves will continue to be convertible to gold in the future—at the existing price—they generally prefer to hold a portion of their reserves in dollars or dollar claims.

Dollars can be held as demand deposits in commercial banks in New York and other cities, or they can be invested in interest-carrying assets, such as short-term U.S. securities. On the other hand, dollars used to buy gold earn no interest. Indeed, they incur a storage charge. It is not relevant to the issue to debate whether gold is worth \$35 per ounce only because the U.S. Government is pledged to buy at this price all that other governments wish to sell. The pertinent point is that we are pledged to sell gold at this price to other governments, or to their central banks, to the extent that they wish to buy and have U.S. dollars with which to buy.

Postwar trends

In the early postwar years, the U.S. Government and its nationals lent, spent, and invested many billions of dollars abroad, with no immediate challenge to the adequacy of our gold reserves. In postwar Europe, as in the underdeveloped nations, the U.S. goods and services which dollars would buy were so much in demand that foreign countries could spare relatively few dollars to buy gold. Indeed, in the early postwar years, U.S. policy encouraged the flow of some gold abroad to help in stabilizing the currencies of the recovering nations by permitting them to build up their foreign exchange reserves. With economic recovery in Europe, however, several European countries began to accumulate large amounts of gold and dollars. For the most part, dollars lent or spent in underdeveloped countries can be used to purchase European goods or services, in which case they may end up in European central banks already having a surplus of dollars. Between the end of 1949 and the end of 1960, foreign government and private holdings of dollars and short-term dollar claims increased from \$7.5 to \$19.9 billion (not counting holdings of the IMF and other international organizations). Meanwhile, dollars had been used to purchase our monetary gold to such an extent that our gold reserves were reduced from \$24.6 to \$17.8 billion. Even with this large loss, however, the United States still holds roughly 42 percent of all the free world's monetary gold.

TABLE 16.—Official gold and foreign exchange holdings and volume of international trade—Selected countries

[Billions of U.S. dollars]

	Official ¹			Inter-national trade, total ²	Reserves as a percent of international trade
	Gold	Foreign exchange	Total		
United States.....	\$17.5	\$9.1	\$17.6	\$36.2	48.6
Canada.....	.9	1.0	1.9	11.9	15.9
Common Market countries ³	10.7	5.1	15.8	63.1	25.1
Belgium ³	1.2	.4	1.6	7.9	20.3
France.....	2.1	.7	2.8	13.6	20.6
Germany.....	3.6	2.8	6.4	23.3	27.4
Italy.....	2.2	1.1	3.3	9.1	36.3
Netherlands.....	1.6	1.1	1.7	9.2	18.4
United Kingdom.....	2.2	1.4	3.6	23.2	15.5
Switzerland.....	2.5	.3	2.8	4.6	60.8
Japan.....	.3	1.3	1.6	9.5	16.8

¹ As of end of 3d quarter 1961.² Estimated total imports and exports in the 12 months ended Sept. 30, 1961.³ Includes Luxembourg trade; Luxembourg gold and exchange holdings not available.

Source: International Financial Statistics, January 1962.

DOLLAR CLAIMS AND THE ROLE OF GOLD

Foreign governments or their central banks now hold reserves of \$11 billion of short-term dollar obligations, which might be used, at least theoretically, to purchase our gold reserves. Private holders of short-term dollar claims abroad have an additional \$8 billion, and these dollars too could be used to buy U.S. gold. The United States does not, of course, sell gold to private holders of dollars, but private holders may exchange their dollars for local currencies. In this case the dollars go to a foreign central bank, which is privileged to buy our gold. This does not mean that all of these foreign dollar holdings are likely to be used to purchase our gold. On the contrary, to a large extent private dollar holdings represent balances held by foreign firms and nationals in U.S. banks for settling up-coming bills for the purchase of U.S. goods and services. And, as has been indicated, dollars are held as reserves to settle future international balances.

All U.S. sales of gold to European central banks in recent years can by no means be attributed to speculative activities or to lack of confidence in the dollar. On the contrary, many central banks follow a practice of maintaining a certain minimum percentage of their reserves in gold, notwithstanding the fact that the gold earns no interest. Accordingly, since the increasingly favorable balance-of-payments position in Europe resulted in greatly increased holdings of reserves, it was only natural that the European countries would restore the balance they desired between gold and dollar holdings, and hence, much of the gold flow has been automatic.

On the other hand, foreign central bankers may suddenly decide to buy U.S. gold, not because of any lack of confidence in the U.S. Government's intention to live up to its pledge or because of any lack of confidence in its domestic fiscal policies, but because of uncertainties as to what other foreign central banks may do. Should all foreign central banks make a rush on our gold reserves in the belief that others are about to do so, extreme embarrassment could result. There is no international Federal Reserve System to mobilize reserves or otherwise scotch irrational runs on central banks. The International

Monetary Fund was created to serve this function but only to the extent of its existing resources. Unlike a central bank, it does not have the power to create new liquidity. Furthermore, its powers and resources are small in relation to the growth of money transfers that have taken place in recent years as a result of both increased volumes of trade and a general return to currency convertibility. Accordingly, the cooperation and continuous consultations among nations now taking place in the OECD should help not only to avoid raids on the reserves of individual nations, but to pave the way for improvements in international monetary mechanisms.

BANKER'S ROLE: LONG-TERM ASSETS, SHORT-TERM LIABILITIES

Our balance-of-payments deficit also does not mean that the United States is becoming insolvent. On the contrary, as a world banker, this country is in much the same position as a private commercial bank in that most of the claims against us are short-term or demand claims, while our assets are mostly long-term or illiquid assets.

In theory at least, all of a bank's depositors could simultaneously ask to have all their demand deposits converted to cash. Normally this does not occur because there is a constant turnover of bank deposits resulting merely in the shifting back and forth of credits from some depositors' accounts to others as incomes are received, bills are paid, and so on. Should a U.S. bank be confronted with a situation where all of its depositors were demanding at once to have their deposit claims in cash, the average U.S. bank could make prompt payment of not more than about 17 cents on the depositor's dollar, because this is the amount that the average bank has in cash and cash reserves with the Federal Reserve System. Commercial banks have most of their assets in the form of loans that have been extended for a fixed period of time and other claims that usually cannot be converted to cash immediately, except at distressed prices substantially below their worth. Needless to say, however, commercial banks are subject to some fairly large demands for cash and have learned from experience that they must, to be safe, keep a certain fraction of their assets in a liquid form in order to be able to meet such extra large demands.

And so it is with a nation. To illustrate, when a U.S. firm spends dollars to build a plant abroad, a valuable asset is acquired, but the dollars spent become a short-term claim, adding to the potential drain on our gold reserves. Indeed, private investments by U.S. nationals in foreign countries over the past 10 years amount to approximately the same as our international payments deficit in those years, but these investments have been largely in long-term assets, whereas relatively few of the foreign-held dollar claims against us have been invested in long-term assets in the United States.

TABLE 17.—*International investment and gold position of the United States, 1949 and 1960*

[Billions of dollars, end of year]

Assets and liabilities	1949	1960 ¹
Assets	55.2	89.2
Gold, IMF subscription, and short-term.....	28.6	26.8
Monetary gold.....	24.6	17.8
International Monetary Fund subscription ²	2.8	4.1
Short-term private.....	1.3	4.9
Long-term.....	26.6	62.4
Direct investment.....	10.7	32.7
Other private investment.....	4.9	12.6
U.S. Government claims ³	11.0	17.0
Liabilities	16.9	44.7
Liquid.....	9.8	26.2
Short-term, by holders:		
Foreign official ⁴	2.9	10.3
International Monetary Fund ⁵	1.3	2.6
Other international organizations ⁶4	1.4
Private ⁶	4.6	9.6
Foreign and international holdings of U.S. Government bonds and notes.....	.6	2.3
Long-term.....	7.1	18.4
Direct investment.....	2.9	6.9
Other private investment.....	4.2	11.5
Excess of assets over liabilities	38.3	44.5

¹ Preliminary.² Under current practices of IMF, the United States has a virtually automatic right to draw the amount of its subscription less the amount of U.S. liabilities to IMF as shown in the lower part of the table.³ Includes U.S. Government claims in inconvertible currencies.⁴ As reported by banks in the United States.⁵ Non-interest-bearing notes (and, in 1949, deposits).⁶ Includes estimated foreign holding of U.S. currency and other liquid claims not accounted for elsewhere.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce and Board of Governors of the Federal Reserve System.

Over the postwar years foreign assets owned by the U.S. Government and its nationals have been increasing faster than have foreign claims against the United States. Furthermore, our foreign assets are substantially in excess of our liabilities to foreigners. In 1949, our foreign assets exceeded our liabilities to foreign governments and nationals by \$38.3 billion. By the end of 1960, our excess of assets over liabilities had grown to \$44.5 billion. At the same time, however, short-term claims against us amounted to \$26.2 billion, whereas our short-term assets available to meet these claims, not counting monetary gold, totaled only \$9 billion.

TABLE 18.—*Short-term international dollar balances reported by banks in the United States, excess of liabilities to foreigners over claims on foreigners, by countries*

[In millions of dollars]

	Dec. 31					Increase in net liabilities Jan. 1, 1958, to Dec. 31, 1961
	1957	1958	1959	1960	1961	
Germany, Federal Republic.....	1,417	1,678	1,933	3,394	2,876	1,259
United Kingdom.....	1,177	749	869	1,422	2,044	867
France.....	240	430	598	457	947	707
Italy.....	1,023	1,085	1,340	843	1,189	176
Switzerland.....	833	810	931	618	789	-164
Other Europe.....	1,699	2,261	2,268	1,564	1,915	216
Canada.....	1,469	1,776	1,926	2,018	2,212	743
Latin America.....	1,619	1,304	1,233	1,066	894	-725
Asia.....	1,560	1,770	2,194	2,061	1,085	-475
Other.....	305	210	317	263	302	-3
International agencies ¹	1,617	1,544	* 3,158	* 3,953	3,804	2,287
Grand total.....	12,959	13,617	16,766	17,712	17,847	4,888

¹ Represents principally the International Bank for Reconstruction and Development, IMF, IFC, and IDA.

² Includes \$1,031,000,000 representing increase in U.S. dollars subscription to the IMF paid in June 1959.

³ Includes Bank for International Settlements.

NOTE.—Detail may not add to totals because of rounding.

Source: Federal Reserve Bulletin.

Trade balance favorable

As is frequently pointed out, the balance of trade in goods and services of the United States has not been unfavorable in the postwar period. Our exports have exceeded our imports by a substantial margin—though a margin by no means sufficient to bring back all of the dollars used abroad for purposes other than imports. Payments made for overseas military costs, as well as loans and investments abroad, foreign aid, and dollars spent by U.S. tourists abroad, all enter into the total outgo of dollars. Similarly, payments made by foreign governments and nationals for repayment of loans, interest on loans, investments in the United States, and so on, enter into our total receipts from abroad, along with payments for imports from the United States. The deficit in our international payments ranged between \$3½ and \$4 billion in the years 1958 through 1960, and is estimated at \$2.4 billion for 1961.

STEPS TAKEN TO IMPROVE PAYMENTS POSITION

Among the measures adopted to help correct the deficit, the one that has been pursued with the most vigor, perhaps, is that of raising short-term interest rates (and all other interest rates) in an effort to make U.S. bank and security rates relatively more attractive to short-term funds. When short-term interest rates in Europe are substantially higher than in the United States, certain types of depositors with international connections may transfer funds to Europe to take advantage of the higher rates. Dollar claims going abroad for long-term investment, such as for building a plant or purchasing European stocks and bonds, are no more or less an immediate claim on the United States than are short-term bank deposits. Concentrating our efforts on stemming the flow of short-term funds simply draws a distinction between the purposes for which funds go abroad, not the

effect they have on our balance of payments. Funds going abroad for long-term investment are considered desirable, whereas funds going merely to take advantage of the differential in short-term interest rates are considered undesirable. Furthermore, many European governments and banks receiving such funds tend to draw the same distinction.

Increased interest rates

Under the 19th-century system of banking, any funds moving from one country to another were considered automatically to increase the money supply of the receiving country. Under today's conditions, the central bank exercises control over its country's money supply, so that when funds flow into a country with adequate reserves to meet international needs, the central banking authorities make only the same amount of money available to its nationals as it would without the inflow. On the other hand, dollars transferred to Europe flow to a central bank, which then invests them in U.S. Treasury bills or other short-term securities, or deposits them in time accounts in a U.S. bank. Thus, if the rate of interest being paid to the depositor of dollars abroad is higher than the rate that the central bank earns on the dollars in New York, the economy of the country in question is paying net interest to the United States. Naturally, astute central bankers do not like to have their countries pay interest to another country just for the dubious pleasure of holding some of that country's currency. Indeed, in some instances, European banking systems have imposed a charge or penalty on dollar deposits in their banks in order to discourage short-term funds from coming in. Knowing of our nervousness over the decline in our gold reserves, furthermore, European central bankers can, by threatening to take our gold, exercise some leverage on our monetary officials to encourage them to raise U.S. interest rates.

Since mid-1960, the Federal Reserve has maintained a 2¼- to 2½-percent floor under yields on 91-day Treasury bills, and a general level of interest rates much higher than would be appropriate for the state of the domestic economy. Presumably, this has reduced the transfer of dollars abroad by making U.S. interest rates relatively more attractive, though to what extent international monetary flows are affected by interest rate differentials has not been indicated in any factual way.

As a further step to stem the flow of short-term funds, the Federal Reserve has amended Regulation "Q," effective January 2, 1962, raising from 3 to 4 percent the ceiling on interest rates that member banks may pay on time and savings deposits of 1 year or more. This action will also help raise the general level of U.S. interest rates and make them more attractive relative to rates abroad, provided, of course, that the other major nations do not reciprocate by raising their interest rates.

Other unilateral steps

Further, the Treasury has undertaken some modest experiments with techniques that may offer alternatives to monetary actions raising the general level of interest rates throughout the domestic economy. One of these techniques, that of issuing special certificates at a negotiated interest rate to foreign central banks and governments,

has been initiated. The other is that of obtaining foreign currencies in order to operate in the foreign exchange markets to alleviate pressures on the dollar. In addition, during the course of the committee's hearings the announcement was made that the Federal Reserve System is beginning a similar operation. We have doubts whether the Federal Reserve should be entering into this field of activity. Responsibility for international economic and financial policies resides with the President and the Secretary of the Treasury. On the face of the matter, moreover, it would seem undesirable to have two competing and possibly conflicting agencies in this vital area.

The technique of issuing special certificates to foreign central banks appears promising. Such a practice would seem to involve a much smaller direct cost to the Treasury than the present policy of keeping interest rates on all short-term Treasury securities at artificially high levels. Furthermore, the indirect cost of the monetary tightness necessary to keep short-term rates at these artificially high levels, in terms of its repressive effects on the U.S. economy, seems overwhelming. Similarly, as an alternative to the recent step to raise maximum rates that the commercial banks pay on time and savings deposits—a step which will further influence all long-term rates upward—Treasury and Federal Reserve officials should explore the possibility of persuading foreign banking systems to do more toward discouraging the inflow of short-term funds where such funds are not wanted.

Cooperative measures

The administration has made efforts to achieve better cooperation with our Western allies, and these seem also to have met with some success. West Germany and Holland appreciated their currencies by approximately 5 percent during the past year, as an aid to slowing the accumulation of dollar surpluses in those countries, but the immediate effect was a speculative transfer of short-term funds from the United States, and from the United Kingdom as well, in anticipation of further revaluations. What the longer run net assistance from the revaluation has been, if any, is not clear. West Germany made a loan prepayment amounting to \$587 million, and this materially reduced our payments deficit for the year. Finally, we may presume that the meetings of Working Party 3 of the OECD, as well as the monthly meetings of central bank officials representing the major countries at the Bank for International Settlements, have led to better understanding of the problems and to improved coordination of monetary and balance-of-payments policies. Some progress has been made, furthermore, toward achieving better international monetary arrangements in the International Monetary Fund. Delegates from the 10 nations meeting at Vienna last September have agreed to recommend to their respective governments that the IMF be provided with a \$6 billion supplemental borrowing and lending authority. While the supplementary authority is disappointing in the amount of European continental currencies provided and in the degree of automaticity in making credit available, we believe that the recommendation should be promptly approved by the United States and the other participating countries.

FURTHER STEPS NEEDED

Protecting the dollar from unnecessary, irrational strains is a matter in which the whole free world has a manifest interest. This will require a much larger sharing of the free world's burden for aid to underdeveloped countries, and for mutual military defenses, on the part of those countries now in a position to assume a larger share.

These countries must be persuaded to increase their contributions to the underdeveloped countries generally, not just to former colonies and associated territories, and to make more aid available without tying the use of the aid funds to purchases in their own markets. Similarly, several of our NATO allies must be pressed to make a fairer contribution to NATO support, including increased contributions to military base operating expenses, whether for civilian personnel, construction, land, or supplies.

Finally, while we applaud the efforts that the Common Market countries are making toward an integration of their economies, we feel that steps must be taken to lessen the discriminations against non-member countries inherent in their evolving tariff structures, which are characterized by disappearing internal tariffs, coupled with a common external tariff. Manifestly, the Common Market countries owe the rest of the free world a substantial unilateral reduction in their external tariffs.

In extending the Marshall plan and other direct aid to the countries of Western Europe during the immediate postwar years, the United States has not acted entirely out of charity. Neither was it entirely charity that led to the policy of permitting Western Europe access to U.S. markets free of quantitative restrictions on manufactured goods, while European markets were largely restricted against U.S. exporters, thus allowing the Europeans to accumulate large holdings of gold and dollar reserves.

On the contrary, this was intelligent policy, as has been indicated by the results. We think it would be equally intelligent policy for those countries of Western Europe that are now in a surplus position to do what they can toward cooperating in relieving the present strain on the dollar.

INTERNATIONAL TRADE PROBLEMS

Since passage of the Trade Agreements Act of 1934, the policy of the United States has been to promote freer movement of goods, services, and capital across national boundaries. This policy has been based, not only on the belief that expanding trade encourages peaceful relations among nations, but also upon the belief, based on our experience with free trade among the States of the Union, that the benefits of economic specialization and technological development are achieved where there is a minimum of artificial barriers to trade. Over the past 28 years this policy on an international scale has met with considerable success in stimulating an orderly expansion of world trade among ourselves and our allies. Indeed, we have adhered to the most-favored-nation principle in negotiating reciprocal reductions in tariffs with other countries. This means that any reductions in our tariffs that are made for one country are extended to all. Even so, this policy has resulted in a moderately favorable balance of trade for the United States.

The Common Market

The problem of the United States now is to maintain a sufficient surplus of exports over imports to finance our military commitments abroad and our efforts to help the underdeveloped countries achieve the benefits of modern methods of economic organization. A principal development in this connection is the emergence of the European Common Market. Already six nations—France, Germany, Italy, the Netherlands, Belgium, and Luxembourg—are on the way to forming a full economic union. The United Kingdom last year agreed to apply for admission on the basis of full adherence to the Common Market Treaty, and other free nations in Western Europe are certain to follow Britain's lead. The result is the prospect, not many years hence, of a modern mass market of some 300 million persons, developing along lines very similar to our own.

In fact, the existing Common Market has, over its 4 years of operation, been growing about twice as fast in economic terms as has the United States. Per capita income in these six nations has been increasing at a rate of more than 5 percent a year. Free Europeans are forging for themselves a new standard of living by creating a free-trade area quite similar to the free-trade area comprising our 50 States. Through our exports we have been sharing in the growth of this new market; our exports to the present members of the Common Market have increased about 50 percent in the past 4 years. Clearly, if our producers have nondiscriminatory access to this market, with a minimum of tariff barriers, Western Europe will offer in the future the largest opportunity for sales that any market outside of our own has ever offered.

Need for prompt action

But if the promise of this new opportunity is to be realized, there is need for prompt action. The members of the Common Market have been rapidly eliminating trade barriers among themselves. Once these barriers have been removed, a common tariff wall will be erected around all the member nations. This common external tariff is based in general on the arithmetical average of the 1957 tariffs of the four customs areas (Benelux, France, Italy, and Germany).

In the process of moving to free trade among themselves and erecting a common external tariff around their market, like the common tariff we have around our 50 States, the Europeans are placing all outsiders at a disadvantage.

The evolving discrimination against nonmember countries is illustrated by the competitive disadvantage at which U.S.-made automobiles and trucks now stand, as against German-made vehicles, in the French market. Before the Common Market was formed, the French tariff on German and U.S. vehicles was the same. Now, however, the French tariff on U.S.-made vehicles is 26 percent, whereas the French tariff on German-made vehicles is only 18 percent. It seems safe to say that American automobile manufacturers have already lost business in the French market to their German competitors. And on the other side of the coin, U.S. exporters have lost business in Germany on a variety of goods in which French exporters have an advantage. Ultimately there will be no tariff on motor vehicles as between Germany and France, but the common tariff against the United States and other outsiders will be 23 percent.

To take another example, American manufacturers of rubber tires sold approximately \$1 million worth of their product in France in 1960. West Germany, which also has a large and efficient tire industry, is at present confronted with a French tariff of 11 percent, whereas the French tariff on U.S. tires is 18 percent. Within the next 7 years the French duty against German tires will have been completely wiped out, although the external tariff of all of the Common Market countries against American and other producers will be between 19 and 22 percent. In this case, the common external tariff will be even higher than the present French tariff.

U.S. plants locating in Europe

Under such circumstances, even the most efficient American producers will find it difficult to compete in Europe. In many cases, it will be much more profitable for U.S. companies to establish plants behind the tariff wall. The anticipation of this external tariff has already encouraged our investors to invest in Common Market countries. The Department of Commerce estimates that American capital outlays in Europe in 1962 will be 40 percent higher than the 1960 levels. Part of this expected increase is no doubt attributable to uncertainty that the projected trade barriers can be reduced.

The President's authority to enter into reciprocal tariff reductions under the present law has been substantially exhausted. Furthermore, the new problem of negotiating with the Common Market requires more flexibility in bargaining, including authority to bargain across-the-board agreements with reference to a whole variety of products. It is patently clear, moreover, that if maximum benefits are to be gained from negotiation with the Common Market countries, these negotiations must be undertaken earlier rather than later. New large-scale plants have been and are being located within the Common Market in anticipation of the advantages that the common external tariff will offer. Other economic alignments are taking shape which will quickly establish formidable vested interests in a high Common Market tariff. The United States must, therefore, move to allow its exports to grow along with the Common Market rather than hope to be able to undo at a later time what has already been done.

Importance of foreign trade

In some respects foreign trade is less important to the economic strength of the United States than it is for most other countries. Last year our merchandise exports, excluding military aid, amounted to only about 4.3 percent of our gross national product; our merchandise imports amounted to only about 3 percent of GNP. In other countries these percentages are much larger. For example, foreign trade accounts for 35 percent of the national production of the Netherlands; 16 percent for the European Economic Community (Common Market) as a whole; 15 percent for the United Kingdom. Yet, 6 million U.S. workers are employed in the manufacturing plants which account for the bulk of our industrial exports, though of course these workers are producing principally for the domestic market. Approximately 15 percent of the cash income of American farms is attributable to exports. Our industrial exports are, typically, those from our high-wage, growth industries which have demonstrated a clear trading advantage all over the world. The wider the markets open to these

industries, the more investment and employment opportunities are opened here at home. Because these industries are, economically speaking, our star producers, the faster they grow, the stronger our whole economy is.

Our imports, on the other hand, are chiefly of the raw materials we need. Of the \$14.7 billion of U.S. imports in 1961, nearly half were industrial raw materials—iron ore, nonferrous metals, oil, and the like—on which our domestic industries increasingly depend as our own natural resources become depleted. Another 25 percent of our imports represent tropical foods and fibers—coffee, tea, cocoa, bananas, jute, sisal, etc.—which we do not produce at home at all. The fraction of our imports which do compete directly or indirectly with domestic production offer our consumers a wider range of products, product styles, and prices, which very often stimulate American producers to take on new and different lines of production here at home.

Helps control inflation

Furthermore, a progressive opening of our markets to competition should help to solve one of our chronic domestic problems—that of inflation. This was cogently stated by a witness at one of our subcommittee hearings on foreign economic policy problems last December. Mr. T. V. Hauser, retired chairman of the board of Sears, Roebuck & Co., speaking for the Committee for Economic Development (CED) said:

The main present obstacle to high employment in the United States is the tendency to inflation in the American economy when unemployment is low. Increasing the exposure of the American economy to foreign competition will restrain this tendency, soften the conflict between general price stability and high employment, and permit the attainment of higher employment. That is, the expansion of trade—both import and export—undertaken, as I have suggested, with proper safeguards, will assist in the achievement and maintenance of high employment in the United States (Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Dec. 4-14, 1961, pp. 253-54).

NEW TRADE LEGISLATION

We are aware, however, that the overriding issues facing the free world run much deeper than any question of short-term gains in trade specialization. The industrialized countries of the free world command the overwhelmingly greater share of the productivity, resources, and technical know-how of the world. Working together, and growing together, these countries—including those of North America and Western Europe, as well as Japan—can mobilize the creative resources and energies of the free world in such a way as to raise living standards to new heights and to achieve for democratic self-government a new record of performance in the economic realm. A liberal trade partnership among these nations should make it possible to accommodate a growing trade of the less-developed areas of the free world and to enlarge the technical and industrial assistance being offered these nations. On the other hand, the powerful new trading bloc which the Common Market will create could result in a division that the free world can ill afford.

The President has asked for new trade legislation along the lines that we support. Such legislation is necessary to permit the free world to take advantage of what seems an unparalleled opportunity to bring about a large expansion of world trade from which all concerned will benefit.

We feel, however, that if trade legislation is to achieve its high objectives, it must contain provisions for assisting communities, as well as firms and workers in making adjustments to the new trade patterns that will emerge. We think that the legislation should provide for loans and grants to communities and firms, as well as for programs to retrain workers. No doubt more companies, communities, and workers will benefit than will be injured by a movement toward more liberal trade. Indeed, all consumers will benefit if prompt adjustments can be made to transfer capital and labor to more efficient lines of production, or to more efficient methods of present production. We would emphasize, furthermore, that the condition which will make such adjustments easiest is one of high production and employment at home. This situation gives capital, labor, and enterprise attractive alternatives.

In addition, as we have mentioned, we feel that unilateral actions on the part of the Common Market countries are in order, with reference to tariff reductions, with reference to liberalization of quantitative restrictions against our goods, and with reference to increased support of our mutual obligations for defense and aid to the underdeveloped countries.

Finally, as a safeguard against the possibility that negotiations may not prove as successful as we anticipate, we also think the new trade legislation should specifically authorize the President to raise tariffs, as well as to lower tariffs.¹

¹ Mr. Boggs dissents, saying: "The recommendation seems to suggest that tariffs ought to be raised at times, not for the protection of domestic industries, but as a device for bargaining with our trading partners. Such a suggestion would of course be contrary to both the principles of a liberal trade policy and the rules of GATT."

WAGE AND PRICE POLICIES

Responsibility for the maintenance of a climate conducive to orderly and vigorous economic growth is not the function exclusively of government. In a truly free economy, equal, if not greater, responsibility to see that the forces that determine the flow and allocation of resources are not distorted or blocked must lie with individuals and private economic organizations.

There are important sectors of our economy where free market forces are seriously impeded. Large corporations and large labor unions exercise considerable power over wage and price decisions. Where such actions involve large numbers of employees or significant portions of output, they directly affect the national interest.

Companies having the power to administer their prices not only may restrict the level of production in their own and other industries, but may in the long run hurt their own self-interest by preventing their natural markets from flourishing. Resources may be drawn off into industries that contribute little to growth. Other industries may thereby be prevented from achieving the natural economies of scale inherent in a growing market.

In the same manner, wage increases in excess of productivity gains may create unemployment and result in overcapitalization in the affected industries, thus giving rise to further dislocations by downward pressure on wages in other industries, or pushing workers into lower productivity areas of the economy.

When, in a particular industry, price leadership combines with union strength to pass on inflationary wage increases as higher prices, the dislocative effects can be widespread. The unduly large share of income channeled toward such an industry prevents other workers and employers, indeed the whole economy, from producing as much or as effectively as they could under a more efficient allocation of resources.

Suggested guidelines

In view of the long controversy that has prevailed in this field, it is gratifying that the Council has made a pioneering effort to set guideposts for judging whether a particular wage or price decision may be inflationary:

The general guide for noninflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of overall productivity increase. General acceptance of this guide would maintain stability of labor cost per unit of output for the economy as a whole—though not of course for individual industries.

The general guide for noninflationary price behavior calls for price reduction if the industry's rate of productivity increase exceeds the overall rate—for this would mean declining unit labor costs; it calls for an appropriate increase in price if the opposite relationship prevails; and it calls for

stable prices if the two rates of productivity increase are equal.

These general rules are, however, subject to modifications:

(1) Wage rate increases would exceed the general guide rate in an industry which would otherwise be unable to attract sufficient labor; or in which wage rates are exceptionally low compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been weak in particular local labor markets.

(2) Wage rate increases would fall short of the general guide rate in an industry which could not provide jobs for its entire labor force even in times of generally full employment; or in which wage rates are exceptionally high compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been especially strong.

(3) Prices would rise more rapidly, or fall more slowly, than indicated by the general guide rate in an industry in which the level of profits was insufficient to attract the capital required to finance a needed expansion in capacity; or in which costs other than labor costs had risen.

(4) Prices would rise more slowly, or fall more rapidly, than indicated by the general guide in an industry in which the relation of productive capacity to full employment demand shows the desirability of an outflow of capital from the industry; or in which costs other than labor costs have fallen; or in which excessive market power has resulted in rates of profit substantially higher than those earned elsewhere on investments of comparable risk (Economic Report, p. 189).

Productivity measures

The Council recognizes a number of problems to be resolved. Inasmuch as there are several measures of productivity, there first has to be agreement about the method to be used in measuring the trend rate of productivity, both for individual industries and for the economy as a whole. As is evident in table 19, productivity gains in the period 1954-60 vary from 1.9 to 3.1 percent, depending on the type of measure used. Second, there is the question of the time intervals to be used in measuring productivity trends. Short intervals give excessive weight to cyclical movements. Very long intervals may obscure important breaks in trends.

TABLE 19.—Annual rates of growth of output per man-hour, 1947-60

Industry series	Average annual percentage change ¹		
	1947-60	1947-54	1954-60
Total private economy.....	3.0	3.5	2.6
Nonagriculture.....	2.4	2.7	2.2
Nonmanufacturing.....	2.2	2.6	1.9
Manufacturing.....	2.8	2.9	2.9
Manufacturing corrected for varying rates of capacity utilization.....	2.8	2.8	3.1

¹ Computed from least squares trend of the logarithms of the output per man-hour indexes.

Sources: Department of Labor and Council of Economic Advisers.

The Council prefaced its proposal with an invitation to public consideration and discussion:

* * * since the question is of prime importance to the strength and progress of the American economy, it deserves widespread public discussion and clarification of the issues. What follows is intended as a contribution to such a discussion (ibid., p. 185).

Education and voluntary restraint

The committee invited testimony on wage and price policy from several expert witnesses. Dr. Ben William Lewis criticized as unrealistic previous efforts to "economize by admonition," i.e., by relying on appeals to conscience, responsibility, and economic statesmanship to stem inflationary price increases. He welcomes the guideposts as a step forward:

The Council confirms by explicit reference the authoritative belief implicit in the earlier issuance of admonitions that there are important sectors of the economy where the state of competition leaves considerable room for the exercise of private power over prices; and demonstrates an active public concern over this condition. But it goes further: it calls for responsible behavior and, speaking for the administration, spells out in economic terms relevant to decision making the general overall limits and shape of responsibility (hearings, p. 378).

Dr. Otto Eckstein expressed concern that in the past the Government, "apart from general exhortation * * * has relied on the behind-the-scenes approach":

I would feel more secure about the matter if the public had a means of passing its own judgment in this situation. Either a public factfinding panel or a publicly available statistical analysis by the staff of the Council of Economic Advisers would give the public a means for judgment. * * * Let me add, that ex-post pronouncements of the soundness of settlements by the principals in a behind-the-scenes negotiation are not a sufficient protection of the public interest (ibid., p. 384).

He considers the Council's guideposts an important step:

While couched in somewhat more general language than I would have chosen, the implications of these guides in the present context are clear. They say, "the general guide for noninflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of overall productivity increase * * *. The general guide for noninflationary price behavior calls for price reduction if the industry's rate of productivity increase exceeds the overall rate * * * for an appropriate increase in price if the opposite relationship prevails * * *" (ibid., p. 383).

Dr. Yale Brozen introduced a negative note:

I should emphasize that the correct rule or guide * * * for wage setting is not the overall change in the economy as a whole in output per man-hour. The Council recognizes this, although it says otherwise. The Council implies the correct rule or guide where it proposes that "wage rate increases would exceed the general guide rate in an industry which would otherwise be unable to attract sufficient labor" and, in another paragraph, proposes that "wage rate increases would fall short of the general guide rate in an industry which could not provide jobs for its entire labor force." * * * What the Council has said is that supply and demand in free markets should determine wage rates (*ibid.*, pp. 387-388).

Dr. Henry C. Wallich, a former member of President Eisenhower's Council, called the guidelines a—

cautious and appropriate further step toward the evolution of a wage policy * * * a move which in one form or another several European countries have already taken (*ibid.*, p. 623).

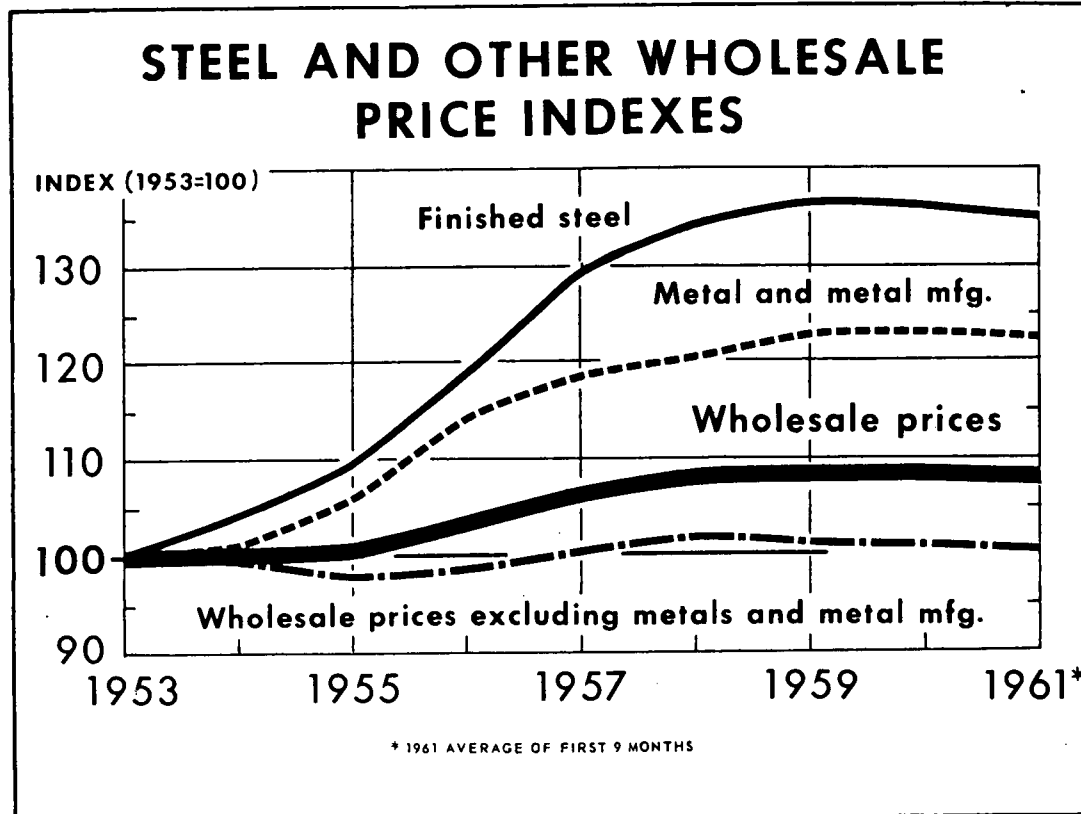
Another former Council member, Dr. R. J. Saulnier, indicated that the effort to limit the rate of increase in wage rates in each industry to the trend rate of the overall productivity increase, was of such—

overriding importance that it is futile to discuss monetary and fiscal policy without reference to it. * * * It would have been a vast improvement over our actual experience, in which wage advances typically outran economywide productivity gains by substantial margins (*ibid.*, p. 473).

Administered price inflation

Dr. Gardiner C. Means blamed neither wages nor general price increases for the inflation since 1952. In presenting the results of his intensive study of inflation since 1953, he advanced the conclusion that the post-1953 rise in the wholesale price index has been an administered-price inflation concentrated largely in steel and steel-using industries. As compared with an 8.2 percent rise in wholesale prices, finished steel prices rose 35 percent and were largely responsible for the rise in the index as a whole. He found a striking lack of relation between price increases and the level of steel operation, noting that steel prices rose in 1954, when steel was operating at 71 percent of capacity; in 1955, when it was operating at 93 percent of capacity; and in 1958, when it averaged only 61 percent of capacity. Dr. Means concludes that three-quarters of the steel price increase since 1953 resulted directly or indirectly from a widening of profit margins, and that only a quarter derived from increased labor costs.

CHART 10



Source: Hearings, p. 366.

Conclusions

The fact that eminent experts can vary markedly in the emphasis placed on wage and price factors points up the need for further intensive study of wage and price determination and their relation to full employment. Meanwhile, there are certain general points of agreement. Increases in administered prices, like wage increases, are detrimental to our economic health if they are excessive. In those industries in which one or a few firms have the power to exercise price leadership for the entire industry, there is a temptation to set prices high enough to insure profit margins even at the greatly reduced levels of operation typical of recessions.

This favored situation is achieved at great expense to the economy as a whole. Inflated prices force up prices in user industries and initiate a chain of reactions that end in reduced consumption. Unquestionably, high prices have contributed to the imbalance in our international payments. Also, because they are misinterpreted as indicating a general inflation in demand, such prices have helped to bring about the tight money policy that has been inflicted on the economy in past years. By interposing serious barriers to high employment, inflationary prices help to pave the way to deficit financing and other Government-initiated stimuli.

If guidelines can be developed to the point where they can be used to identify and measure the inflationary component of wages and prices, they will help considerably to foster stable and, in some instances, lower prices. Substantial economic benefit would ensue. Domestic sales of the affected commodities would increase; likewise, export sales would rise and help substantially to correct the deficit in our international balance of payments.

Moreover, by placing full employment within easier reach, it would make possible increased and more stable longrun profits in the economy as a whole and call forth the investment capital required for further increasing production. The increased demand, stimulated by the price declines in industries whose prices are above the competitive level, would reverberate widely in the economy. The elimination of artificial restrictions on the flow of economic activity would make it easier both to sustain full employment and to avoid demand inflation.

The cooperation of labor and capital has been a primary factor in developing the tremendously productive economy we have today. The availability of objective standards governing wage and price actions will facilitate mutual understanding and cooperation in removing inflationary barriers to economic growth.

ANTITRUST POLICIES

Open, competitive markets are the means whereby a free society channels its efforts into producing the goods and services it wishes to have. Markets must be kept open so that the innovators and newcomers will not be excluded. Markets must be kept as competitive as possible in order to allow the price system to play its traditional role of allocating resources to uses which most effectively satisfy consumer demands.

When powerful companies have the ability to control prices, this power may be used to extract inordinately high prices from the rest of the community. As indicated in the previous chapter on wages and prices, unduly high administered prices can divert too much of the income stream to powerful groups and undernourish the other sectors of the economy, thereby disturbing the balance between income on the one hand and consumption and savings on the other. As a sequel, too large a share of that income that would otherwise have been available for saving is siphoned off by these powerful groups. This can deprive the rest of the business community of the ready access to funds needed for growth and expansion.

When this happens, it becomes necessary for government to undertake compensatory action through easier credit, deficit spending, and other special stimuli. Such actions may overcome the effects of imbalance in the economy, but the basic distortions remain, so that inevitably performance falls short of a completely effective utilization of resources.

Unfortunately, the relation between industrial power and prices is a complicated one, and there is no blueprint for recommended action. Certain industries are characterized by heavy investment in plant and equipment and a system of distribution that makes available on a nationwide basis the standardized parts and services that consumers demand. The efficiencies in production and distribution derive from the very scale of operation. We do not know, however, the precise level beyond which efficiency begins to suffer and less wholesome objectives, like market domination, become the primary motives for increasing size.

Nor is it easy to ascertain the degree of excess in any administered price structure. It would be unfair and naive to assert that all administered prices are too high; it would be equally naive to claim that no administered prices are excessive. In varying degree, there are administered prices in many industries. Their existence, per se, does not necessarily connote collusion.

ANTITRUST ACTIVITIES IN 1961

Although there are industries in which a disturbingly small number of well-entrenched firms exercise substantial power over price and output but in which no overt conspiracy exists, the Justice Department did not bring suit against any such companies under section 2 of the Sherman Act last year. Apart from suits against mergers and price fixing in the commercial banking business, the Antitrust

Division continued to limit its attention almost exclusively to cases involving either mergers in violation of the Celler-Kefauver Act, or specific illegal offenses, e.g., price-fixing, bid-rigging, and division of territories, violative of section 1 of the Sherman Act.

Quite obviously, there is a large, shadowy area lying between the kind of monopolistic price fixing that is currently prosecuted under the antitrust laws, on the one hand, and the amount of price leadership that realistically must be tolerated in our economy, on the other hand. There are many things we do not know about this large area. At what point does size cease to contribute to efficiency? We need better standards for distinguishing and judging the harmful quota of excess in administered prices. Conceivably, there needs to be a better definition of the permissible limits of concentration. Study of this subject warrants high priority, particularly since the issue relates directly to the major objectives of maximum production, a rapid rate of growth and price stability.

Within the more clearly defined boundaries of the antitrust laws, the Justice Department in 1961 gave evidence of a more vigorous enforcement policy.

Identical bids

First, on April 24, 1961, the President issued Executive Order No. 10936 requiring Federal agencies to report to the Attorney General identical bids on Government contracts. This should be of great assistance to the antitrust agencies in detecting and prosecuting price-fixing conspiracies. Over the past 10 years, goods and services purchased by the Federal, State, and local governments have represented roughly 20 percent by value of all the goods and services produced in the Nation. Thus in 1960, when the value of all goods and services produced (GNP) totaled \$504.4 billion, government purchases accounted for \$100.1 billion, slightly more than half of which was by the Federal Government.

The President's Executive order carried out the main objectives of this committee's resolution of March 14, 1961. That resolution recommended that the President issue an order to require Federal agencies to report identical bids to the Attorney General, to invite State and local governments to make similar reports, and to require the Attorney General to make frequent public reports of such identical bids, giving the names of the companies making the bids and other pertinent details. The chairman has been informed by the Antitrust Division that the first such report will probably be completed in April of 1962.

A study on identical bidding reported to the Department of Justice for past years, issued by this committee on August 30, 1961,¹ showed that careful analysis of identical bids can provide useful leads for collecting evidence to be used in prosecuting price-fixing conspiracies, thus saving taxpayers millions of dollars each year. The report pointed out, however, that to achieve these objectives the heads of the various Government agencies, including those charged with antitrust enforcement, must take their responsibilities more seriously than they have in the past. As the committee report showed, most of the agencies paid little attention to identical bids during the period

¹ Joint Economic Committee Staff Report, "Ninety-Three Lots of Bids Involving Identical Bids, Reported by the Federal Procurement Agencies in the Years 1955-60" (August 1961).

1951-60 and made no material effort to obtain supporting evidence of collusive behavior. If the reporting of information on identical bids is to be a strong instrument of antitrust enforcement, as it can be, then such intelligence must be made publicly available on a regular basis; only in this way can the Congress ascertain whether the public interest is being adequately safeguarded. For this reason, permanent legislation requiring the submission of information on identical bids is badly needed. H.R. 8603 (originally H.R. 4570), sponsored by the committee chairman, is designed to accomplish this objective; it was passed by the House in August 1961, and we hope it will receive favorable consideration in the Senate during this session of Congress.

Consent decrees

Second, both the Antitrust Division and the Federal Trade Commission adopted new policies on the negotiation of consent decrees that may have important implications. Consent decrees long have been a device by which those accused of antitrust violation can reach a favorable settlement with the interested Government agency and simultaneously minimize the risk of subsequent private damage suits. Particularly where these understandings are arrived at clandestinely, they can work directly counter to the public interest.

For years the Congress has been urging the Justice Department to make the details of proposed settlements known in advance of their actual submission in court, so that they can be subjected to close and critical scrutiny. This past year, it is encouraging to note, the Attorney General announced that henceforth all such proposed decrees will be open for public inspection for 30 days prior to their formal presentation in court.

In a related move, the Federal Trade Commission announced new rules of practice that give respondents only 30 days after a complaint is filed to negotiate a settlement; once this period has passed, the controversy proceeds to its ultimate contested conclusion, without further opportunity for seeking a consent settlement. This new procedure should have the desired effect of inducing more parties to settle their cases quickly, with a consequent increase in the Commission's operating efficiency.

Third, as noted above, during 1961 the Antitrust Division filed a number of suits contesting the legality under the antitrust laws of certain bank mergers that had previously been favorably passed upon by regulatory agencies of the Government. The Justice Department also intervened in proceedings before the Federal Communications Commission, the Interstate Commerce Commission (in respect to the large number of pending railroad consolidations), and the Federal Power Commission.

For bringing these suits and making presentations before regulatory bodies, the Division merits wholehearted approval and strong encouragement. If the regulated sector of the economy, which encompasses such vital industries as banking, transportation, communications, and energy resources, is to be made to conform as closely as possible to the competitive ideal, the respective administrative agencies must consider and weigh more heavily than they do at present the competitive factors involved. Principal reliance should be placed on competition, protected from monopolistic encroachment by diligent antitrust enforcement.

POLICIES FOR INCREASED GROWTH POTENTIALS

Economic growth is not merely a desirable condition. It is essential—in terms both of our commitments as a free people and of our dedication to the goal of full employment. We need expanded output to provide military security and to maintain our programs of foreign aid. As exemplars of a free democratic society, we must push ahead to improve living standards for our growing population and, in particular, to dry up the pockets of ignorance, poverty, and ill health that still persist.

The first and most urgent requirement for raising the rate of growth in the Nation's potential output is an expansion of total demand to take up existing slack and to keep pace with future increases in output potentials. There is little hope for an accelerated rate of growth as long as unemployment is excessive and business enterprises are faced with too much idle productive capacity. Demand adequate to purchase the full potential output of the economy will itself contribute to a higher rate of growth in potential output.

But beyond this first task of achieving full recovery and greater economic stability, public and private policies must be directed toward influencing the basic determinants of the growth in the Nation's potential output from year to year. There is much, of course, that is still unknown about the process of economic growth, but there are some matters of which we can be sure.

MAIN SOURCES OF POTENTIAL GROWTH

First, the primary source of our potential output, and of its growth, is the number of people available for employment, the number of hours they wish, or are able, to work, and the qualifications they bring to the marketplace. We can be confident, therefore, that policies that improve the health, general education, incentives, mobility, and specific occupational skills of present and future workers will contribute to maximizing both the current level of potential output and its future rate of growth.

Second, we can be sure that an important ingredient in the Nation's productive capacities is the current state and rate of progress of technology. This includes not merely the familiar factors of knowledge in scientific, engineering, and mechanical fields, but also the whole range of managerial and organizational competence, which affects the efficiency with which economic processes are operated. Policies that tend to raise more rapidly the level of our knowledge in these fields and to disperse it more widely among our people will have important consequences for the rate of economic growth. In the areas of education and research and development, we can proceed with confidence in the prospective benefits.

Third, our policy must always take cognizance of the fact that the productive potentials of our economy depend on the efficiency with which resources, both domestic and foreign, are allocated to different

economic purposes and by the extent to which monopolistic or other barriers impede the free and rapid movement of labor and capital into the most productive uses.

Finally, it is generally accepted that our productive capacity is, to a significant degree, a reflection of the magnitude of our stock of new and old plant and equipment as well as its distribution by age, type, and location.

PROBLEM OF "EXCESS" CAPACITY

Large percentages of the Nation's capital equipment and labor force are now idle only because the goods and services these resources can produce are not in sufficient demand—at present prices.

The Council's report states:

Faster economic growth in the United States requires, above all, an expansion of demand, to take up existing slack and to match future increases in capacity. Unless demand is adequate to buy potential output, accelerating the growth of potential is neither an urgent problem nor a promising possibility. Full utilization will itself contribute to growth of capacity (p. 108).

Slow growth and slack demand

Most of the expert witnesses who testified on the subject expressed a view that the insufficiency of demand, and hence the slow rate of capital accumulation over the past few years, reflect an insufficiency of consumer demand. Thus a past Chairman of the Council of Economic Advisers, Mr. Leon Keyserling, said of the rate of capital accumulation over the past 9 years:

Careful observation of the economy in action demonstrates clearly why the rate of business investment was too low in absolute terms, for the 9-year period as a whole. It was not because either the tax treatment of investors or other factors, such as price-wage-cost relations, militated against a sufficiently high level of profits and investment in producers' goods at any time when the ultimate demand for products in the form of private consumer expenditures and public outlays for goods and services at all levels of government were high enough to make reasonably full utilization of plant and equipment and technology in being. Entirely to the contrary, whenever this ultimate demand was adequate or indeed not glaringly deficient, expansion of plant and equipment through the investment process raced so far ahead of the expansion of ultimate demand that the economy got badly out of balance. Recessions consequently followed (hearings, p. 562).

Dr. Gerhard Colm, chief economist of the National Planning Association, said:

* * * Nothing discourages an increase in investments and future growth as much as idle capacity; nothing stimulates investments as much as a high rate of operation and the expectation of expanding markets. Needless to say that aggregate demand includes not only consumer demand, but

also business demands for new producers' goods, and Government demand (*ibid.*, p. 520).

Policies to stimulate investment in business capital, if they succeed, will themselves help generate consumer demand—and a demand for labor. On the other hand, business firms do not turn in old equipment for new unless there are clear labor savings to be achieved; and the business community does not continue expanding capacity when there is no foreseeable ultimate demand for the end product of the new capacity.

To stimulate consumer demand three possibilities are open to public and private policies: (1) Widespread and substantial price reductions to increase aggregate real demand for goods and services, (2) monetary policies to encourage economic expansion, and (3) stimulation of a more rapid rise in consumer incomes through (a) wage and salary increases and (b) lower taxes on consumer incomes.

Price reductions

Selective price reductions are highly desirable, particularly in those industries that have long operated at low rates of capacity utilization. Furthermore, it is not impossible that such price reductions might be achieved through appeals to business firms for a reexamination of pricing policies through the force of public opinion. To obtain a large reduction in the general price level, however, would require, as in the past, a general monetary deflation with its dismal cortege of bankruptcy, unemployment, and tragic waste of men and resources. Pressures on prices can be increased to some extent by increased exposure of domestic markets to foreign competition, and indeed, the new trade program that the President has proposed should be very helpful toward restraining general price increases. Yet, to be realistic we cannot count on any substantial reductions from this source.

Monetary policy

Much easier monetary policies could conceivably be adopted to permit an expansion of private economic activity. Indeed, we have repeatedly recommended such a policy—and we do so now. But the demonstrated preference of the monetary management for an increasingly restrictive policy, aided now by the balance-of-payments specter, hardly gives basis for hope that an easing of monetary policy to the degree needed is likely to be forthcoming.

Wage and salary increases

One technique for stimulating more effective consumer demand would be to encourage—or permit—general wage and salary increases. However, wages and salaries represent costs as well as sources of income. These costs, in turn, are related to relative productivities in the economy. A simple invitation to the labor sector of the economy to push for wage and salary increases is no answer to the general problem of stimulating economic growth. Wage increases would be related to bargaining strengths and to relative monopolistic positions of the sellers of labor and would bear little relationship to more fundamental economic adjustments. The results of such an open invitation would be to distort income patterns in the Nation without necessarily promoting growth, as is set forth in the chapter on "Wages and Prices."

Consumer tax reductions

Lowering the general levels of taxation serves to increase disposable incomes, or to reduce prices to consumers in the case of reductions in excises. In either case the result is an increase in total real demand for consumption. Moreover, income tax decreases can be designed to concentrate the impact on those income groups that most need the benefits of increased disposable incomes, and that are most likely to use the tax reductions to augment consumer purchases. Excise tax cuts, of course, tend to concentrate the first impact on particular commodities or services. Hence, permanent tax reductions are potentially the most equitable and pragmatic of the means available for stimulating aggregate consumption demand and would seem to warrant first consideration.

Consumer tax reductions would, moreover, help to compensate for the restrictive monetary policies pursued in the post-Korean period. Both before and after the "speedup" depreciation provisions, the dividend-credit-and-exclusion provisions, and other investment "incentives" of the 1954 Revenue Code became effective, monetary strictures have been aimed at slowing down investment in plant and equipment. This was done on the theory that when increases in productive capacity seriously outrun increases in consumer demand, the inevitable result is a more stubborn cyclical recession.

The President has recommended several important steps, either through legislation or budget requests, to stimulate investment in our human resources, in research and development, and in business purchases of plant and equipment—which we discuss below.

INVESTMENT IN HUMAN RESOURCES

The greatest share of economic growth derives from human resources as the result of better education, improved technical skills, and better health. Because programs to improve our human resources have such a wide impact on the economy, it is both appropriate and wise for government to provide, or at least to support, many of them. The wisdom of investment in education is borne out impressively by statistics. Current studies show the return on investment in college training for the Nation as a whole to be around 9 percent—far above the return on public investment in other fields. And this is apart from the incalculable element of personal fulfillment.

Aid to education

Investment in elementary and secondary education has the greatest longrun potential. Our elementary and secondary school population is increasing by nearly a million a year; an estimated 600,000 classrooms need to be built in the 1960's. A total of 36 million children are involved.

Another fertile investment area, involving both longrun benefits and a quick payout, is in federally financed scholarships. Many of these scholarship holders, upon graduation, will immediately enter or return to the labor force. The average direct cost of attending college has risen sharply to about \$1,700 a year per public college student and about \$2,300 a year per student in private colleges. Unless direct help can be given to students of great academic promise who lack

personal or family resources, we stand to lose priceless potential. The Council of Economic Advisers has pointed out that:

Of each 1,000 pupils who entered the fifth grade in 1952, 900 entered high school in 1956, 600 graduated from high school in 1960, and 300 entered college in the fall of 1960. Thus 40 percent of the original 1,000 students did not graduate from high school, and half of those graduating from high school did not enter college. Many of these withdrawals are by children of better than average intelligence (Economic Report, p. 119).

By the mid-1960's an estimated million more students will be attending colleges and universities. The burden of providing the classrooms, laboratories, and other teaching facilities needed will tax the limited State and private revenue sources beyond their capacities. Sound economic policy requires that the Federal Government help meet this critical need.

Manpower training and development

The program proposed by the President would provide for on-the-job training, vocational education, and relocation allowances. The work already under way under section 16 of the Area Redevelopment Act should provide a basis of experience on which to build such a program. Several European countries, notably Sweden, have had similar programs, which are outlined in a committee study, "Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe."¹

Youth employment and training

The proposed expenditure of \$75 million during the first year and \$100 million in each of the next two years under this program might well be offset by reductions in supportive and rehabilitative costs. An even greater return might be in the contribution such a trained labor force could make to economic growth.

The older worker

The need for retraining is particularly critical for the older worker. When there is no longer a market for his original skill, he finds himself at a double disadvantage because of widespread reluctance to hire older persons. Yet here is an important source of manpower that, for economic as well as for social reasons, we cannot afford to overlook.

Other aids to education

Programs to "teach the teachers" and otherwise to improve the quality of education will have a multiple effect. This is true also of the proposed programs for medical and dental school aid and scholarships. If we are to build the health of our Nation, studies show that there will be need for more doctors and dentists than present arrangements can provide.

Health programs

If it is possible to add effective hours to the working year, and working years to a life, by improvements in health, the result will be an increase in the effective labor force. By almost any measure of health the people of the United States are better off than the people

¹ Joint Economic Committee (December 1960), prepared by the committee staff.

of most of the rest of the world. Nonetheless, any child on an inadequate diet or any adult handicapped by a disease that could have been prevented represents an unnecessary loss of resources. Added investment in health programs would prevent such losses and at the same time raise our standard of living.

INVESTMENT IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT

The President has proposed an increase in expenditures in fiscal 1963 for various research and development programs to a total of \$12.4 billion from the fiscal 1962 spending of \$10.2 billion and fiscal 1961 total of \$9.3 billion. Thus in 2 years, spending on these programs will have risen by \$3.1 billion, or about one-third.

The Federal Government now supports about two-thirds of the research and development activities of the Nation. In the calendar year 1960, the latest period for which relatively complete data are available, expenditures in the United States for research and development² totaled \$14 billion, exclusive of capital expenditures. This figure represents all funds for research and development whether spent in industry or otherwise (universities, research institutes, the Government itself, or other nonprofit organizations). Most of the data at hand concern research and development actually conducted in industrial firms; data on outlays in the nonindustrial sector are less adequate.

In 1960 total funds, both governmental and private, expended on research performed in industry amounted to \$10.5 billion. As table 20 shows, this reflected a 10-percent increase over 1959 and is nearly three times the comparable figure for 1953. In calendar 1960, 58 percent of the total research and development expenditures in American industry (or \$6.1 billion of the \$10.5 billion total) was financed by the Federal Government.

TABLE 20.—Trends in funds for industrial research, experimentation, and technological development—by source of funds, 1953–60

(Dollar amounts in millions)

Year	Total funds	Federal Government		Company ¹	
		Amount	Percent of total	Amount	Percent of total
1960.....	\$10,497	\$6,125	58	\$4,372	42
1959.....	9,553	5,610	59	3,943	41
1958.....	8,218	4,636	56	3,582	44
1957.....	7,664	4,336	57	3,328	43
1956.....	6,538	3,328	51	3,210	49
1955.....	4,640	(²)	(²)	(²)	(²)
1954.....	4,070	(²)	(²)	(²)	(²)
1953.....	3,630	1,430	39	2,200	61

¹ Includes all industrial funds for these purposes except those provided by the Federal Government. Does not include company-financed research and development contracted to colleges and universities, research institutes, or other nonprofit organizations.

² Not available.

Source: National Science Foundation.

³ The usual definition of "research and development" is that used by the National Science Foundation: "Basic and applied research in the sciences (including medicine) and in engineering, and design and development of prototypes and processes." The definition does not include "quality control, routine product testing, market research, sales promotion, sales service, research in the social sciences or psychology, or other nontechnological activities or technical services." Thus it applies to work in the natural sciences and excludes that in the social sciences and psychology.

Discovery versus dissemination

It is not enough merely to discover new knowledge. It must be put to active use throughout the economy if growth is to be effectively promoted. In this respect, present practices raise questions.

Present research funds are concentrated in a few firms and industries, with the results largely "locked up" via patents or other barriers to wide use. The contrast between the picture in industry and that which has prevailed in agriculture is startling. For almost a century, research in agriculture has been sponsored and largely financed by the Federal Government through the Department of Agriculture and the State experimental stations. The results of this research have been widely disseminated by the Government both in technical publications and in nontechnical instructions to operating farmers. The results show, for example, in the rate of increase of output per man-hour in agriculture, which has grown by about 6 percent a year over the past two decades, or about double the rate in nonagricultural industries.

Referring to the tremendous increase in productivity in agriculture relative to that in industry, Prof. Alvin H. Hansen said in his testimony before the committee:

The U.S. Government has for a period of I suppose now about 100 years been putting a lot of money in agricultural research. This I think is the basic reason for the increase in productivity in agriculture. * * *

This is one way to stimulate growth. We are doing much more in research now, technological research, than before, but we could do still more.

But I think fundamentally we would have had greater growth since 1955 if we had had two things, larger outlays in real terms in private investment, and larger outlays in real terms in Federal Government outlays on things that do promote growth, like education, investment in natural resources, and in research. * * * (hearings, p. 640).

Concentrated use of Federal funds

The Department of Defense spends the lion's share of Federal research funds, virtually all of which go to a very small number of prime contractors. Table 21 reveals that in fiscal 1961 the largest 10 recipients took nearly 57 percent of the total Department of Defense research outlays, the largest 20 some 73 percent, and the top 25 approximately 77 percent.

TABLE 21.—Allocation of funds for research, experimentation, and technological development by the U.S. Department of Defense, by size class of prime contractor, fiscal year 1961

[Procurement actions of \$10,000 or more]

Size class of contractor	Total awards (millions of dollars)	Percent of total awards
Largest 10.....	3,427	57.0
Largest 20.....	4,416	73.0
Largest 25.....	4,667	77.0
Largest 500.....	5,951	96.8
Total.....	6,025	100.0

Moreover, in distributing its research and development funds, the Federal Government concentrates on a very few industries. In 1960, for example, more than three-fourths of the total \$6.1 billion spent by the Federal Government went to just two industries—aircraft and parts and electrical equipment and communication, with the former alone receiving \$3 billion, or half of the total. When private funds are also considered, these two industries, plus chemicals and allied products, received approximately 80 percent of all research and development funds spent in industry in 1960.

The high degree of concentration of research and development funds in a small number of firms raises the question whether sufficient attention is paid to some of the longrun impacts of research and development policies on the future of competitive enterprise. Thus, former Attorney General Herbert Brownell noted:

* * * this Government must be deeply concerned with the future of competitive enterprise, and it is important that its share of this activity be administered to promote competition within the limits possible under the urgency and complexity of the defense program. However, although there is inadequate factual material upon which to judge the effect of Government subsidization of research, what indications are available warn that the Government expenditures may not run counter to the industry trend toward concentration, but in some degree may even reinforce it.³

He further stated:

The disproportionate share of total industrial research and development in the largest firms may foreshadow a greater concentration of economic power in the future. An adequate supply of technical manpower is the first prerequisite to any research and development program. Such programs themselves are basic factors in the development and expansion of our business economy. Therefore, a present concentration of such manpower and programs means that in the future an increasing share of anticipated improved technologies and new product lines will be introduced by the industrial giants.⁴

Patent policies

In view of the large role played by the Federal Government, especially the Defense Department, in research and development, the question of our policy concerning patents deserves consideration. At the present time, the Defense Department allows the company receiving its research and development grants to acquire and control the patents on any patentable invention it may make through use of the funds. This is in contrast to the policy followed by the Atomic Energy Commission, which itself obtains the patent in the name of the Government and licenses its use. As many critics have proposed, it seems to make sense to change Department of Defense policy so as to permit the general public to use inventions made at public expense.

³ Attorney General's report of November 9, 1966, "Review of Voluntary Agreements Program Under the Defense Production Act and Related Material" (Senate Banking and Currency Committee), p. 17.

⁴ *Ibid.*, p. 18.

Basic research small

Furthermore, most of the research and development funds are expended on applied research in the sciences and in engineering, and very little is spent on basic research. In 1960, for example, only about 8 percent of the \$10.5 billion spent on research and development, or \$382 million, was for basic research. Table 22, showing basic research expenditures by years for the 1953-60 period, indicates that while basic research outlays have been rising in recent years, they are still at a disturbingly low level. Perhaps it is not sensible to expect industry to carry a large share of the costs of basic research. One might argue, by analogy to the case of agriculture, that the Government should be the prime provider of funds, with the actual research in these basic fields carried on by universities, foundations, and Government laboratories.

TABLE 22.—*Funds for basic research performed in industry, 1953-60 (in millions)*

1953.....	\$151	1957.....	\$271
1954.....	166	1958.....	305
1955.....	189	1959.....	345
1956.....	253	1960.....	382

TAX STIMULI FOR BUSINESS INVESTMENT

This committee has frequently emphasized in the past the importance of tax reform in stimulating economic growth. We therefore applaud the fact that the present administration has proposed a first-stage set of tax recommendations and is preparing a second-stage group to be sent up to the Congress later in this session. The first-stage group contains a number of proposals that have considerable merit on grounds of both tax equity and economic effects. The areas covered include withholding on dividends and interest, entertainment and travel expenses, mutual fire and casualty insurance companies, foreign income, sales of depreciable assets, and income of mutual thrift organizations and cooperatives.⁵ Without presuming to enter the domain of the tax-writing committees, we can say that study in each of these areas is long overdue and that we are pleased that consideration is now being given to these matters.

These proposed tax changes, in their present form, involve an increase in revenues of approximately \$1.1 billion in the first year after adoption. Therefore, serious consideration must also be given to the type of tax reduction necessary to offset these increases.

⁵ Mr. Patman comments: "Current proposals to change competitive relationships between commercial banks and savings and loan associations should be considered together. As recommended by the Commission on Money and Credit, these are to: (1) remove all reserve requirements against time and savings deposits in commercial banks, (2) remove the ceilings on the interest rates that commercial banks may pay on time and savings deposits, (3) remove or raise the limits on commercial bank investments in obligations secured by real estate, and (4) subject savings and loan associations and other thrift organizations to Federal-corporate income taxation in the fashion of commercial banks. I believe that the savings and loan associations have done, and are doing, a good job in the real estate mortgage field and should not be pushed out of this business. While I approve of fair and equal taxes on all segments of our society, I must point out that commercial banks and savings and loan associations are in no sense natural equals. Savings and loan associations pay interest on all of the funds they have to lend, and their income is derived from the margin between the rate they pay and the rate at which they lend. Commercial banks, on the other hand, create the money they lend and, having created it, pay no interest to their demand depositors. Furthermore reserves required against demand deposits are not maintained separately from those against time and savings deposits; on the contrary, commercial banks compute their total required reserves as a weighted average of the two types of deposits."

Investment tax credit

The administration has suggested that the offsetting tax reduction should take the form of an investment tax credit. This proposed credit would involve an annual loss of revenue of at least \$1.8 billion. The credit in its proposed form would allow an offset against business income taxes for purchases of new equipment and machinery with economic lives over 4 years and for purchases of up to \$50,000 per year of used property. The proposed benefit generally is equal to 8 percent of the purchase price of domestic investments, and the 8 percent would be applied dollar for dollar against tax liabilities. The credit would in no way affect present depreciation allowances, and it would be available only for investments in tangible personal property and other tangible property, apart from buildings, used in manufacturing, production, extraction, transportation, or communications.

The principal objective of the proposed credit is to stimulate physical investment and thereby stimulate economic growth. In considering this proposal, Congress should determine whether priority should be given to a direct fiscal stimulus to fixed investment, and, if so, whether the administration proposal is an effective and equitable means of stimulating capital expenditures.

The administration proposal emphasizes the contribution of investment in equipment and other physical assets to labor productivity and thereby to potential output. Unquestionably, more and better tools increase the productive capacity of the individual worker and of the Nation as a whole. In particular, investment in new equipment is an important means by which scientific advances are incorporated into the production process. These are strong arguments in favor of the administration proposal. But it is possible, as some would argue, that the best way to build up investment is to create a more solid foundation of consumer demand, thus assuring fuller utilization of capital facilities and greater profitability from expanded capacity. The depressed rates of fixed investment and low ratios of capital outlays to GNP in recent years are symptoms largely of the weakness of ultimate consumer and Government demand. Hence, measures which directly promote consumption—such as lower personal taxes—may rate an equally high priority as a means of attacking the causes of the low growth rates experienced since 1953. Of course, the two approaches are not mutually inconsistent and may be pursued together.

Probable effects of tax credit

Consumer incomes and expenditures would, of course, benefit from any measure successful in adding to investment demand directly. An increased demand for capital equipment means a need for more resources to produce the new equipment and would hence be generally expansionary in its impact on the economy. Over the long run, of course, modernization and expansion of physical capital can have negative as well as positive effects on employment, because it may result in the substitution of capital for labor. To the extent that substitution is encouraged, it may be more difficult to maintain full employment. But this problem is posed by any successful growth policy. If, for example, better education adds to the rate of productivity gain, it too would require a more rapid growth of demand to maintain employment. In adopting any policies to promote growth, the Nation must be prepared to meet the challenge of expanding aggregate demand to keep pace with the growth of potential output.

The Council's report specifically refutes the notion that there is already a tendency for capital facilities to be overbuilt in periods of prosperity. It points out that, even in the investment boom of 1955-57, the capital stock grew at a modest annual rate of under 4 percent. The emergence of excess capacity resulted from an insufficient growth of other demands. While such a rate of growth in the capital stock should be sustainable, as the Council argues, a high investment economy might be susceptible to sharper recessions and would require appropriate stabilization of consumer and Government demand.

The premium placed on investment by the administration is sharply and laudably at variance with the monetary policy of the past decade. Restrictive monetary policy has its primary effect on the economy by retarding investment in physical assets. All of the reasoning advanced in support of the investment tax credit points equally toward aggressive easing of monetary policy as far as balance-of-payments objectives permit. The administration should encourage such actions by the Federal Reserve System and reinforce them by its own conduct of lending and loan-guarantee programs.

A further advantage in accelerating productivity lies in its contribution to the competitive position of American exports. Modernization and expansion of capital may lower the costs of producing goods that are sold abroad and thereby improve our balance-of-payments position. But export sales will be stimulated only if the productivity gains are reflected in lower prices, rather than higher money wage rates and enlarged profit margins.

Because the investment tax credit would be confined to domestic investment, it would help to right the balance between incentives to invest in the United States and incentives to invest abroad. Currently, more favorable tax treatment of capital outlays in foreign countries creates an artificial incentive for American firms to place their plant and equipment abroad. Thus, the investment tax credit would help to strengthen our balance of payments.

The probable effectiveness of the specific proposal for an investment tax credit is difficult to appraise, since such a provision would be novel in the American economy. It would encourage investment by (a) aiding the financing of capital outlays through increases in the cash flow of business firms and (b) increasing the incentive to invest by raising the prospective after-tax yield of new capital projects.

The investment credit can significantly increase the cash flows into business firms, just as would certain alternative tax reductions—for example, in corporate profits taxes. These augmented cash flows may, in turn, accelerate investment. However, as one of our recent witnesses pointed out, the cash flows from current business incomes after taxes and depreciation already are roughly commensurate with—or exceed—new investment outlays. Furthermore, firms can and do raise funds through equity flotations or borrowing. Hence, the case for the investment tax credit must rest more heavily on its incentive effects than on its cash flow effects.

Rates of return on capital

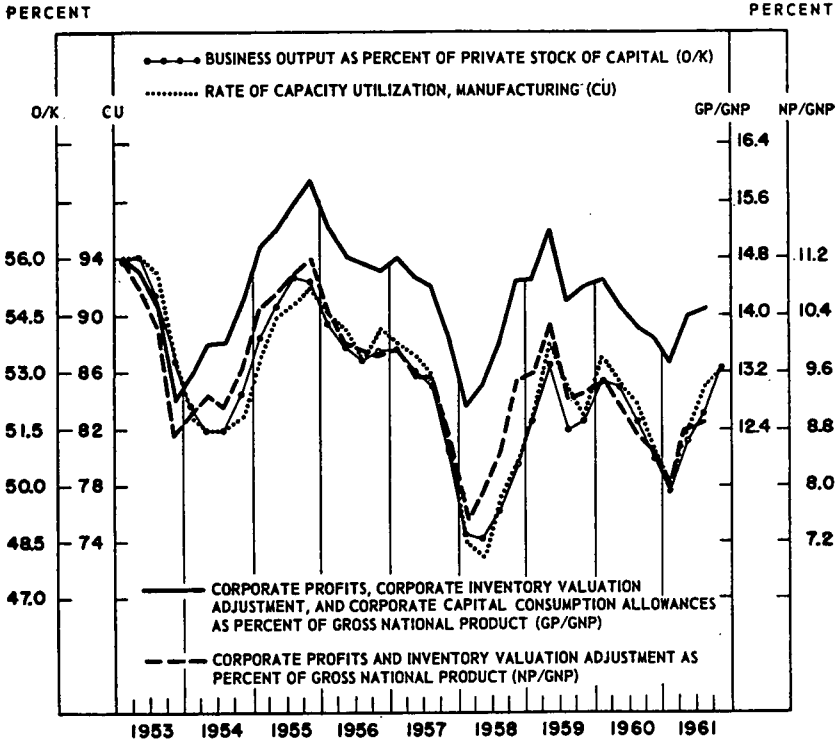
It has been alleged that the low level of investment in recent years has been due to a squeeze on corporate profits. In support of this, it has been pointed out that corporate profits after taxes averaged about 5.9 percent of GNP from 1950 to 1953, and only about 4.5

percent of GNP from 1958 to 1961. These simple, but oft-made comparisons of profits with GNP can be seriously misleading as indications of the state of corporate profits margins and the availability of after-tax cash flows for corporate investment purposes.

In its Economic Report, the Council provides a chart which illustrates one part of the fallacy, by showing that corporate profits are quite sensitive to the rate at which capacity is being utilized. (See chart 11.)

CHART 11

Capacity Utilization and Corporate Profits



SOURCE: COUNCIL OF ECONOMIC ADVISERS (BASED ON DATA OF DEPARTMENT OF COMMERCE AND BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM).

As the chart indicates, corporate profits are low when capacity is not being fully utilized. Since the rate of utilization was higher in the early part of this decade than in recent years, it is only reasonable that the ratio of profits to GNP would be higher in the earlier period.

There is a further imprecise characteristic of this comparison of profits to gross national product. The relevant comparison is between corporate profits and that part of the national income or gross national product that originates in corporations. If the corporate share of economic activity falls, then corporate profits will decline as a percentage of the GNP, even when corporate profits are a stable percentage of the income flow through corporations.

Table 23 gives for three periods of the last decade both the familiar comparison of profits to GNP and the more precise comparison of corporate profits plus capital consumption allowances to national income originating in corporations plus the capital consumption allowances originating in corporations. It is clear from the table that on the latter basis the ratio in recent years is higher than at the beginning of the decade—even though unemployment rose from 3.7 percent to 6.1 percent and the ratio of GNP to potential declined from an average of 103.5 percent to 92.4 percent.

TABLE 23.—*Comparative corporate income rates, 1950-53, 1954-57, and 1958-61*

[Percent]			
Item	1950-53	1954-57	1958-61
Corporate profits after taxes:			
Percent of gross national product.....	5.9	5.3	4.5
Percent of national income originating in corporations.....	12.6	11.4	10.1
Corporate profits after taxes plus capital consumption allowances:			
Percent of gross national product.....	9.4	10.0	9.7
Percent of national income originating in corporations plus capital consumption allowances.....	18.8	19.5	19.3
Gross national product as percent of potential gross national product.....	103.5	98.9	92.4
Unemployment as percent of civilian labor force.....	3.7	4.6	6.1

Sources: U.S. Departments of Commerce and Labor, except gross national product as percent of potential gross national product, which are based on the Committee's Study Paper No. 20, "Potential Economic Growth of the United States" (Study of Employment, Growth, and Price Levels [1960]).

Comparison of tax credit with accelerated depreciation

The investment tax credit would increase the after-tax profitability of capital outlays by lowering the net cost of acquiring depreciable assets. The credit approach has the advantage of applying only to newly acquired assets; it does not dissipate revenues in raising the profitability of existing capital. Other possible means of stimulating investment, such as various forms of accelerated depreciation, have grave deficiencies in their incentive effects, making them clearly and decisively inferior to the investment tax credit. For equal losses in revenue to the Treasury, accelerated depreciation accomplishes a far smaller gain in the prospective yield of new investment than does the investment credit approach. Accelerated depreciation also has the undesirable feature of raising accounting costs; it thereby distorts measurement of business profits and may encourage price increases to keep pace with the higher reckoning of costs. The investment credit approach is likely to achieve a maximum increase in investment per dollar of tax reduction, even though it still inevitably will produce substantial "windfall" payments to firms which would be investing anyway. In this respect, there was particular merit in the original administration proposal of 1961, which would have granted a tax credit only for that portion of a firm's investment that is in excess of a stated percentage of its depreciation allowances.

Partial offsets to tax credit

The revenue losses of the investment credit are to be offset in part by revenue gains through closing some loopholes so as to improve the equity and efficiency of the tax system. These tax revisions fall most heavily on business and property incomes. Nevertheless, the offsetting tax reduction need not be directed to the relief of business taxation.

The investment tax credit should be discussed and formulated specifically as a stimulus to capital formation and not as a tax relief measure. Its potential contribution to productivity, growth, the balance of payments, and full recovery is attractive and deserves favorable consideration by the Congress. In its deliberations, the Congress should use every opportunity to reduce the "windfall" possibilities of the credit and to focus its effect on promoting capital outlays. For example, any extension of the credit to industries with regulated profits and prices, like public utilities, would not be consistent with the objectives of the credit. The administration proposal was on sound ground in omitting such industries from coverage.

Depreciation changes

The administration has announced that the Treasury is making revisions in the depreciation guidelines in Bulletin F; and the Secretary of the Treasury has estimated that the revenue loss from this action will be approximately \$1.8 billion, at present levels of business operations, or about the same as the gross revenue loss expected from the proposed investment tax credit. Two different goals may be achieved through a revision of the depreciation schedules: (a) achievement of more accurate measures of the actual useful lives of depreciable assets, and (b) stimulation of investment in physical assets. We believe both of these goals are highly desirable, but they must be distinguished. If the primary purpose of depreciation reform is to obtain more realistic depreciation rates, the proposals will presumably not be the same as they would be if growth were the primary objective.

Adjustments designed only to make rates more realistic will probably not result in much net change. Depreciation studies by the previous administration led to the conclusion that existing rates were quite reasonable. Actual depreciation deductions on tax returns cannot be used as the basis for justifying shorter useful lives since these deductions are usually determined by bargaining between agents and business firms, and the result of the bargaining frequently bears little relationship to actual useful lives. If the proposed depreciation changes are designed for more realistic rates, presumably some depreciation lives will have to be lengthened rather than shortened.

Proper guidelines

Wherever current depreciation guidelines are insufficient in light of actual economic lives of assets as affected by technical change and obsolescence, firms are in effect required to prepay their taxes. This inequity should be eliminated by revision of the guidelines. If, however, the depreciation changes now being contemplated by the Treasury were to make artificially short the periods of time over which depreciation deductions are taken, this change would represent, in effect, an interest-free loan from the Government to individual firms. Firms would be able to take larger depreciation deductions in the early years of the life of assets, hence pay lower amounts in tax during those years, and presumably pay larger amounts in tax only after the depreciation deductions have been exhausted. Moreover, to the extent that a firm was growing, the interest-free loan would become simply a gift by the Government to the firm. The reason for this result is that, over time, the depreciation deductions on increasing amounts of assets as a firm grows would more than

offset the loss of depreciation deductions on older assets. Hence, the Government would never recoup in revenues the losses associated with the artificially short depreciation lives.

The administration has, through its investment credit proposal, indicated that accelerated depreciation is an inferior means of stimulating capital expenditures. We agree. To be consistent with this position, the Treasury should revise Bulletin F in keeping with the best available information on useful lives of assets. It is our understanding that this is in fact the benchmark that the Treasury has adopted in its current studies.

GOALS FOR THE FUTURE

The Employment Act of 1946 sets forth the goals of national economic policy as ideal aspirations of a free people working together in voluntary cooperation through both public and private institutions and organizations. The act also creates machinery to insure continuing review of the Nation's economic performance, and the evaluation of policies, public and private, by means of the guidelines provided in the policy framework laid out in section 2 of the act.

There is a clear mandate for a regular, annual administrative determination (and congressional review) of the levels and behavior of employment, production, income, and prices, which will give definite and timely measures of the ultimate goals expressed in section 2 of the Employment Act.

In terms of today's conditions and system of statistics, what are the 1962 specifications of the Employment Act objectives?

THE EMPLOYMENT GOAL

The 1962 Economic Report sets as an interim goal the reduction of the unemployment rate by mid-1963 to about 4 percent of the civilian labor force—a rate not realized since 1957. This interim 4-percent unemployment goal is advanced as one that will reduce involuntary unemployment and one that can be achieved—

- (a) by adequate demand without structural changes in labor markets or elsewhere in the economy; and
- (b) without significant inflationary pressures.

The report also concludes that this goal can be further reduced in the future without inflationary consequences if policies are adopted to improve the operation of labor markets, increase mobility of labor and capital, retrain workers, aid the redevelopment of chronically depressed areas, etc.

The committee agrees that the Nation's immediate goal should be a reduction of unemployment to about 4 percent as soon as is practicable without inflation, and that its longer range goal should be increased mobility and efficiency of resource use so that within the present decade a lower unemployment rate, perhaps 3 percent, can be achieved without inflation.

Moreover, emphasis should be placed on eliminating or minimizing involuntary unemployment, including that arising from involuntary part-time employment at fewer hours than individuals are able and willing to work, rather than on achieving some particular unemployment rate. In the present world situation, it is not only wrong, it is dangerous to be complacent about the performance of the economy as long as involuntary unemployment exists or recurs.

In passing, it is noteworthy that the statements in the 1962 Economic Report on this and other goals agree with past studies of the Joint Economic Committee, especially the committee's study in 1960 of employment, growth, and price levels, and the study during the

past year of employment and unemployment, which was conducted by the Subcommittee on Economic Statistics.

THE PRODUCTION GOALS

The 1962 Economic Report quantifies proposed production goals for 1960, 1961, 1962, and 1963 in terms of the total output of goods and services in constant 1961 prices (real gross national product) that would be possible without an inflationary excess of demand and with unemployment averaging 4 percent of the civilian labor force. This it terms the Nation's "potential production."

The potential GNP for 1962 is estimated at \$580 billion (in 1961 prices), compared to \$560 billion in 1961 and \$541.8 billion in 1960, a growth rate of 3.5 percent per year. The target for 1963 is \$600 billion (in 1961 prices).

The committee believes that these are conservative estimates of this Nation's potential production. The labor force and the overall stock of capital seem adequate to support levels at least as high as these estimates by the Council of Economic Advisers. Data from various sources indicate rates of utilization of industrial capacity well below that preferred by management and achieved in the past in prosperous years.

THE STABILIZATION OBJECTIVES

Instability in the rate of employment of labor and capital results in: (a) hardship to those experiencing involuntary unemployment; (b) lower average profits to business because recession losses offset part of the profits of high-employment years; (c) a lower average rate of growth, due to the waste during recessions of opportunities for technological advance, and for increases in capital per worker.

Instability of the general price level results in distortion in the valuation of incomes and assets, bringing haphazard gains and losses, which spur speculation in existing assets at the expense of investment in new growth-producing assets. By rewarding unproductive speculation and penalizing productive workers and businesses, inflation creates social injustices, hardships, and inefficient or misdirected use of resources.

Built-in stabilizers such as unemployment insurance, financial reforms, improved coordination of policies, and increased confidence on the part of business and consumers that their Government will act promptly and effectively to stem any serious threat to stability—all these changes since the early 1930's have tended to reduce cyclical fluctuations, preventing the kind of cumulative spiraling collapse that occurred in earlier eras.

But we must not be complacent. Our sights should be raised. A greater degree of stability in both the rate of employment and the price level is possible. The gains from increased economic stability are great. The United States must show the world—particularly the underdeveloped and newly emerging nations—that under our system it is possible to enjoy both the fruits of political, social, and economic freedom, on the one hand, and the material gains from stability of employment and prices and from rapid economic growth, on the other.

THE GROWTH OBJECTIVE

If the goals of maximum employment and production and of stability of both prices and the rate of employment of labor and capital are achieved reasonably well, then the American economy will grow rapidly. A rising population makes possible a rising labor force. Increased education, health, and experience of the labor force each year make possible increased production per worker. This will be augmented by an increase in capital per worker since at sustained high rates of production, savings and incentives will be adequate to produce a rate of investment greater than that needed merely to replace or maintain the existing stock of capital per worker. Finally, the growth of technological know-how will contribute further to the productivity of the economy. In a word, achievement of maximum employment, production, and purchasing power from year to year necessarily promotes achievement of rapid economic growth and is consistent with reasonably stable prices. The rate of growth will not necessarily be the maximum that could be achieved since it also depends on the success of public and private policies in improving the education and mobility of labor, encouraging technological progress, and promoting a satisfactory rate of investment.

The rate of growth in potential output in periods when the economy operates closest to the Employment Act goals is at least $1\frac{1}{2}$ times the annual rate achieved when it falls far short of these goals. (See table 24.) Though there can be legitimate debate about the precise magnitudes of the rates of growth in potential output, there seems to be little basis for debate on the essential point; the closer the performance of the economy to the ideal expressed in the Employment Act, the more likely it is that the growth rate will be high. Failure to achieve the stabilization and full-employment objectives of the act is costly not only in terms of lost output and hardship for the unemployed, but also in terms of permanent loss of growth in the Nation's production potentials.

TABLE 24.—Potential growth rates compared to percentage of potential output actually produced

[Percent]

Item	1919-29	1929-39	1947-57
Rate of growth per year in potential output.....	3.5	2.3	4.1
Actual output as percent of potential—average for period.....	99.8	80.6	100.6

Source: The Committee's Study Paper No. 20, "Potential Economic Growth in the United States" (Study of Employment, Growth, and Price Levels [1960]).

THE COUNCIL'S GROWTH GOALS

In its report, the Council of Economic Advisers has suggested that the Nation's potential output under conditions of reasonably full employment is now growing at a rate of about 3.5 percent per year. It believes that it is possible to achieve over the decade 1960-70 an average rate of growth in potential output of about 4.3 percent per year. This would mean a rate of growth of 4.9 percent per year in actual GNP from the 1960 level, since in 1960 the economy was about

\$40 billion (in 1961 prices), or 7.5 percent, below potential, according to the CEA estimates.

The proposed goal is not especially high compared to growth rates in past periods when the economy was having somewhat better-than-average success in achieving the goals of maximum employment and stability. This can readily be seen by inspecting table 25, keeping in mind that the past record includes years when the growth rate was slowed by performance of the economy significantly below full employment standards.

TABLE 25.—Growth in potential gross national product and related factors, selected periods

[Percent change per year]

	Potential GNP	Potential man-hours	Stock of capital		Potential GNP per man-hour
			Per worker	Per man-hour	
Council of Economic Advisers' estimates:					
1947-54.....	4.4	0.6	3.5	14.2	3.8
1954-60.....	3.5	.9	1.9	12.3	2.6
1947-60.....	4.0	.8	2.7	13.2	3.2
1960-70.....	4.3	1.2	(^a)	(^a)	3.0
Staff, Joint Economic Committee: 1909-58.....	2.9	.9	1.0	1.5	2.0

¹ Derived from data in table 10, p. 113, Economic Report of the President, January 1962.

² Estimate not given in the Economic Report.

Sources: Council of Economic Advisers estimates are from the Economic Report of the President, January 1962, table 10, p. 113, table 12, and table 15, p. 129. Estimates of staff taken from the Committee's Study Paper No. 20 "Potential Economic Growth in the United States" (Study of Employment, Growth, and Price Levels [1960]).

The proposed growth goal can be accomplished in part by the prospective higher rate of increase in available man-hours of labor—about 50 percent above that for 1947-60 and one-third above the 1909-58 rate. In addition, it would require a growth in output per man-hour somewhat below the 1947-60 rate but 50 percent above the 1909-58 rate. The Council seems to believe, on the basis of past experience, that this would call for a growth in capital per worker of about 2½ to 3 percent per year, hardly a very large figure if chronic slack in the economy is avoided.

This possibility is reinforced by the fact that at a high rate of economic growth, the percentage of GNP that must be devoted to replacement of existing capital would tend to decline slightly from year to year. Potential output has grown more rapidly than the stock of capital over the past 40 years; that is, output per dollar of capital stock has risen by from three-tenths to one-half of 1 percent per year. There can be exceptions to this trend, but nothing in the Economic Report indicates an expectation of such an event in the years ahead. Furthermore, the ratio of replacement requirements to the capital stock is likely to be relatively constant. Therefore, each year a little more of the national output can be devoted to modernizing the capital stock or expanding the amount of capital per worker without necessarily increasing the percentage of potential output devoted to gross private domestic investment in fixed capital.

The Council, therefore, has not been unduly optimistic. In fact, with appropriate policies to stimulate growth and to achieve a better performance of the economy in adhering to the goals of maximum em-

ployment and economic stability, the economy may well achieve a rate of growth higher than the Council of Economic Advisers now expects. The problem is one of private and public policies, not of the capability of the American economy and the American people to do the job.

THE PATH TO FULL EMPLOYMENT

If the interim goal of 4-percent unemployment is to be reached by mid-1963, output will have to expand at an annual rate of 6.7 percent per year from the fourth quarter of 1961 to the middle of 1963. The 2-year expansion in output from 1961 to 1963 would have to average about 7.3 percent per year, compared to an average of 6 percent per year during three preceding recoveries.¹ The question is whether or not the present forces at work in the economy and the policies proposed in the President's Economic Report are sufficient to bring about achievement of recovery with speed and strength sufficient to carry through without stalling short of full employment, as the recovery did in 1959-60.

¹ If 1949-51 (with an average expansion of 8.1 percent per year) is omitted, the average of the other two was only 4.9 percent per year. The 1949-51 recovery was strongly accentuated by Korean war demands.

THE COMMITTEE'S RECOMMENDATIONS

We live in a challenging age—and a dangerous one. All over the world, ideas and social institutions are in ferment; and, happily, all of this is not pointless unrest and conflict. New nations, those only now emerging from industrial prehistory, are busying themselves with ways of acquiring industrial tools, higher levels of literacy, and forms of economic organization by which they may attain the more abundant life. The older industrial nations are no less preoccupied with pushing forward the frontiers of science and technology, with gaining still higher levels of education and technical know-how, and with better organizing their economic efforts. Indeed, so universal are these aspirations for better economic organization that the contest between East and West has become, in one of its forms, a race to determine which of the contestants is better organizing its economic efforts.

We think that the United States can do no less than make a maximum effort to provide a climate in which the great potential of our free enterprise system can be achieved. We cannot afford a continuation of the large gap between our economic performance and our economic potential, involving as it does tremendous losses in production, business profits, and workers' incomes.

We believe that public and private policies should be aimed at—

- (1) completing the task of full recovery and restoring full employment;
- (2) increasing the effectiveness of our stabilization policies, to help maintain the recovery achieved; and
- (3) increasing efforts to improve our growth potential, including, principally a healthier and better educated population, more research and technological development, an increased rate of capital modernization, and a better diffusion of individual opportunities.

INCREASING THE STABILIZING EFFECTS OF FEDERAL PROGRAMS

The President has recommended several important steps to improve Federal programs, particularly to strengthen their influences against cyclical recessions and inflationary tendencies in the economy. His principal recommendations and our comments follow.

Unemployment compensation

The President has recommended legislation to strengthen the unemployment insurance system by providing for an extended benefit period for experienced workers at all times, and for all workers in times of high unemployment, by providing incentives to States to increase benefits, by extending coverage to 3 million additional workers, and other measures.

We favor this proposal. When the unemployment compensation legislation was enacted, Congress expected that compensation rates would provide workers with at least half their normal weekly earnings.

Instead, compensation rates have not kept pace with average weekly earnings. We favor also extending the unemployment compensation system, insofar as it is practicable, to workers not now privileged to participate in the system. The President's proposal, if enacted, will provide better protection for workers and their families against the extreme hardships and stresses that can come with periods of joblessness. There can be no doubt that the unemployment compensation system has provided a powerful stabilizing influence on the whole economy and has thus benefited the employed as well as the unemployed. This stabilizing influence would be strengthened by enactment of the proposed legislation.

Standby public works

The President has recommended legislation to—

Provide standby authority for the President to accelerate and initiate up to \$2 billion of capital improvements—Federal, State, and local—which authority may be used within 2 months after the unemployment rate (seasonally adjusted) has risen (1) in at least 3 out of 4 (or 4 out of 6) previous months and (2) has risen to a level at least 1 percentage point higher than its level 4 (or 6) months earlier.

We have previously recommended such a limited standby authority for projects which can be initiated and completed within a short time. We favor such authority, not for indiscriminate use, but for use in areas where heavy unemployment occurs. The proposal would add an important supplement to the arsenal of weapons for fighting recessions. This does not mean that we favor reliance on massive or long-term public works as an effective countercyclical program. On the contrary, our studies have led us to share the general view that such programs are likely to be too slow in starting and too late in ending.

Temporary tax cut authority

The President has recommended legislation to—

Provide standby authority for the President to make temporary (6 months) reductions of up to a maximum of 5 percentage points in all individual income tax rates subject to congressional veto:

At the conclusion of the committee's intensive Study of Employment, Growth, and Price Levels 2 years ago, we strongly endorsed the principle of limited discretionary tax flexibility, and we are pleased to find the proposal in a Presidential recommendation. The present tax structure provides a very large degree of automatic flexibility, tending to counteract both recessionary developments and those of overemployment and inflation. We feel, furthermore, that the long-term goal should be to improve these automatic features. But since experience has provided no clear guidelines to perfection of automaticity, we favor making prompt, limited changes in tax rates from time to time as economic events warrant. We believe that had such actions been taken early in past recessions, large downswings and tremendous losses in production and incomes (and tax revenues) could have been avoided.

Witnesses before the committee have posed objections to the exact form of the present proposal—though not related to the economic

substance of the proposal—and have suggested alternative approaches that might be equally effective. The practical objection to the proposal is that it involves a transfer of legislative function to the Executive, and a transfer of the Executive (veto) function to the Legislature—an arrangement involving doubtful consequences. Recognizing the urgency of prompt action, however, these witnesses have suggested that Congress enact legislation setting out the terms of the kind of temporary tax cut it will make, when asked to act quickly; with the “ground rules” thus established, Congress should be able to act quickly on a request for a temporary tax change and, indeed, to initiate such an action if need be. We believe that such an alternative procedure would be practicable.

In considering what legislation it will be willing to enact quickly, the Congress might consider alternatives to the President’s proposal for an across-the-board tax reduction of 5 percentage points. The Commission on Money and Credit, in its recommendation on the matter, proposed that the cut be in the first income tax bracket only. Another recommendation frequently considered is that the first income tax bracket (\$2,000 for a single taxpayer) be split in half to create a new bracket for incomes up to \$1,000.

Under the President’s proposal, 40 percent of the tax reduction would go to individuals having incomes of \$10,000 or more; under the CMC proposal 19 percent of the tax cut would go to individuals with incomes of \$10,000 or more; the same amount of tax reduction, if applied to the first half of the first income tax bracket would distribute only 15 percent of the total amount to individuals having more than \$10,000 income.

We also believe that the tax structure needs adjustment. As we have emphasized before, since tax rates are progressive and average incomes are continually rising, the budget tends to balance at ever-higher rates of unemployment—or, to put it another way, the “full employment” budget tends to generate larger and larger surpluses. Thus, we recommended in our annual report last year 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.

Since the Treasury is now examining the revenue system, with an announced view to making other tax proposals later in this session of the Congress, we hope that it will seriously consider whether such an adjustment in tax rates is not now appropriate.

MONETARY AND DEBT MANAGEMENT POLICIES

A number of steps to improve monetary and debt-management operations are in order. We discuss those recommended by the President and add several of our own:

Salaries and terms of Board of Governors

The President has recommended legislation to—

- (1) Revise the terms of the officers and members of the Board of Governors of the Federal Reserve System, so that the 4-year term of the Chairman will coincide with that of

the President, so that the terms of members begin and end in odd years instead of even years.

(2) Raise salaries of members of the Board of Governors of the Federal Reserve System.

These recommendations are part of a larger proposal advanced by the Commission on Money and Credit for administrative changes in the Federal Reserve System, including a change which would place the functions of the Federal Open Market Committee in the Board of Governors. We favor changing the term of the Chairman of the Board of Governors to coincide with the term of the President and also raising the salaries of members of the Board, without awaiting decision on the other features of the CMC's proposal.

Monetary silver

The President has made a number of recommendations concerning silver, including:

(1) Repeal the acts relating to silver of June 19, 1934, July 6, 1939, and July 31, 1946, thus freeing the Treasury from any obligation to support the price of silver.

(2) Repeal the 50-percent tax on transfers of interest in silver, thus fostering orderly price movements by encouraging the establishment of a future market in silver.

(3) Authorize the Federal Reserve System to issue Federal Reserve notes in denominations of \$1, thus making possible the gradual withdrawal of silver certificates in the denominations of \$1 and \$2 and the use for coinage purposes of the silver thereby released.

These recommendations are intended to free silver from Government control, remove price ceilings and floors, and eventually demonetize silver except for its use in coins. The committee believes that this is a desirable combination of steps to be taken in view of the large and expanding industrial demand for silver.

Monetary policies

We must express particular dissatisfaction with Federal Reserve monetary operations in the past year. For several years past, the committee has repeatedly urged that the Federal Reserve amend several policies which can have only restrictive effects on the economy. Not the least of the recommendations we have made are that (1) the Federal Reserve allow the money supply to increase at a rate appropriate to the growth of the gross national product, and (2) that it "abandon its discredited 'bills only' policy, finally, and without reservation." The evidence is that the Federal Reserve has not permitted a sufficient expansion in the money supply, and it has done little more than abandon "bills only" in name only.

In view of the Federal Reserve's policy of pegging the minimum bill rate, in response to the balance-of-payments problem, it has now become most necessary that it realistically abandon the "bills only" policy and make substantial shifts in its holdings of Government securities, shifting from short-term to long-term securities. To the extent that the monetary authorities insist on holding up short-term rates, this objective can best be accomplished by releasing to the market large quantities of their short-term securities, while buying from the market an equal or larger quantity of long-term securities.

In this way additions to the money supply can be made without putting downward pressure on the short-term rates. Furthermore, taking long-term securities off the market will put downward pressure on these rates, thus offsetting the upward pressures these rates are receiving, indirectly, by virtue of the pressures being held under the short-term rates. We do not believe that because the Federal Reserve has pegged the minimum bill rate it should return to the practice of pegging the maximum bond rate. We do believe, however, that there should be a judicious shifting of the portfolio such as we suggest to relieve the artificial pressures under the long-term rate.

Furthermore, we believe that the balance-of-payments problem has been much overplayed as an excuse for pursuing a tight-money policy, and for boosting interest rates across the board. Tighter money and higher interest rates have been a perennial goal of the Federal Reserve authorities, beginning long before there was any balance-of-payments problem.

We believe that a proper monetary policy to follow is one that will make for maximum employment and growth, without inflation, at home. Such a policy will at the same time best serve our balance-of-payments interest by increasing our growth and our productivity, and thus keep our export-import position competitive.

We consider that the case for a policy of tighter money (and higher interest rates) than is necessary to achieve this result has not been proven. Higher interest rates abroad, and their magnetic effect on short-term dollar capital, are sometimes mentioned in talk of the "balance-of-payments constraint." Long before the monetary authorities are justified in following a tight-money, high-interest policy which inhibits maximum employment and economic growth without inflation, they should take other steps to correct such adverse effects as high interest rates abroad may have on our international payments position. These steps include—

(a) a wholehearted abandonment of the "bills only" policy;

(b) a wholehearted effort to persuade friendly countries which appear to be drawing off short-term capital from the United States by higher interest rates to moderate those interest rates, and their magnetic effect on short-term capital, by an increased emphasis on fiscal rather than monetary methods of combating inflation;

(c) vigorous use of the 10-nation international payments supplementary agreement, adoption of which is recommended elsewhere. This can further neutralize the effects of interest rate differentials.

In short, we see no justification whatever for slowing up domestic growth and tolerating large-scale domestic unemployment, because of some untested assumptions about the "magnetic effect" of interest rate differentials.

We repeat our recommendations of last year as follows:

* * * the Federal Reserve should—

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

(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.¹ 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 longrun 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.

(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.

¹ Senator Douglas: “I would prefer to say at this time, the discount rate should not be raised.”

Debt management

In the past we have endorsed certain types of advance refunding, believing that the Treasury can accomplish desirable results by refunding a portion of its securities in advance of the dates when they are to mature. We have said, however, that "advance refunding has to be done gradually and in moderation in order to prevent the interest costs from being driven up".²

We are considerably puzzled, however, by some of the advance refunding operations that were carried out in the past year. Among these, as we discuss elsewhere, was one refunding of \$4 billion of bonds costing the Treasury a rate of 2½ percent and having between 8½ and 9½ years to go before maturity. These were replaced with new bonds which cost the Treasury 3½ percent per year. This and other advance refunding operations carried out last year appear to have increased the annual cost of carrying the Federal debt by \$105 million. While we can understand the desirability of refunding bonds well in advance of their maturity, we do not understand refunding bonds having 8 years and more to go to maturity.

We repeat recommendations which we made in 1960 and again in 1961 that the Treasury should—

- (1) Establish as soon as practicable, a regular, predetermined schedule for refunding maturing securities; and
- (2) 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.

POLICIES FOR INVESTMENT IN GROWTH POTENTIALS

The President has recommended a number of steps to increase our longrun growth potential—a more rapid rate of investment in plant and equipment, programs to increase the Nation's level of education, to retrain unemployed workers, and to increase the efficiency and health of our human resources in other ways.

Investment tax credit

The President's program calls for two steps to provide increased incentives for investment in plant and equipment. The first, to be taken by administrative action, will be to provide new guidelines for the depreciation schedules in Bulletin F, such as have already been provided for the textile industry. The second is legislation to:

Provide a tax credit equal to 8 percent of gross investment in eligible machinery and equipment, thus stimulating investment in capacity expansion and modernization by reducing the net cost of acquiring new equipment.

We have no doubt that if our rate of growth is to be improved and our competitive position in world markets strengthened, there must be more rapid modernization of the Nation's productive plant. A high rate of productivity makes possible a high level of wages and standard of living.

The President's original proposal in this area was for a credit to be concentrated primarily upon purchases of assets in excess of replace-

² The Committee's Study Paper No. 19, "Debt Management in the United States," Study of Employment, Growth, and Price Levels (1960), p. 36.

ment amounts. This original proposal had the advantage that it tended to concentrate more directly upon marginal investment decisions. In effect, the tax benefits were directed toward new investment and expansion of equipment rather than total purchases of equipment. To the extent that investment can be stimulated by tax benefits such as would be produced by the proposed credit, greater benefits will presumably derive from larger credits concentrated only on marginal investment decisions.

The proposed credit in its present form retains some of the advantages of the President's original proposal. Specifically, it recognizes that a tax credit provides greater potency for stimulating investment than does a change in deductions for equipment. Hence, rates of return on capital investments can be considerably augmented by this type of change. At the same time, however, such a credit does involve a variation away from the concept that deductions associated with an asset should not exceed 100 percent of its cost. The credit may, on the other hand, be viewed as a factor in the tax computation, designed to aid in the achievement of an important national goal. It may also be said that the gains to firms accruing from postponement of tax payments, the expending of research and development funds and, of course, depreciation deductions accelerated beyond realistic depreciation, likewise involve factors in the determination of tax costs which go beyond standard business accounting practices.

The proposed credit can be of particular benefit in overseas competition. A number of other countries provide special tax incentives roughly comparable to the investment credit, and adoption of the credit may place domestic firms on a more equal competitive basis. The effect of the credit is to reduce the price of new equipment. For a firm with a 52-percent tax liability, an 8-percent tax credit will be equivalent, roughly, to a 16-percent reduction in the price of new equipment. It must be recognized, of course, that the investment credit will have a stimulative effect on our export-import position only to the extent that the credit is reflected in lower prices of goods produced with the equipment.

The primary purpose of the investment credit is to stimulate physical investment and thereby encourage growth.³ Modernization and expansion of productive capacity can increase our standards of living. On the other hand, to the extent that the tax cut stimulates investment, the investment may be stimulated in an erratic manner that accentuates business fluctuations. The present proposal to give a credit on any and all purchases of business equipment may be a tax cut which may or may not be used to purchase new equipment. We are not sure that a business tax cut should have first priority, in the present state of the economy. Complementary measures, such as reductions of taxes on consumption demands, may be necessary in order to provide a balanced growth within the economy.

New depreciation guidelines

The President's recommendations with respect to depreciation reform are meritorious. A general reexamination of depreciation lives for tax purposes is long overdue. It is essential for tax equity alone that depreciation lives be realistic in terms of usable lives and rates of obsolescence. To the extent that depreciation lives have been unduly

³ Senator Pell adds: "I believe that the present proposal for a tax credit could be a real stimulus to economic growth in Rhode Island and throughout our Nation; I strongly favor this proposal."

long in the past, business firms have not received sufficient depreciation deductions during the early years and may have been discouraged from investing in newer pieces of equipment. Hence, a reform of depreciation lives can also serve to stimulate economic growth.

Support of greater realism in depreciation policy cannot be equated with indiscriminate tax subsidies through accelerated depreciation deductions. An examination such as the administration seems to be making should not be a signal for Congress to enact arbitrary depreciation deductions. Substantial amounts of depreciation deductions during the early part of the life of an asset constitute simply an interest-free loan from the Government to private firms and such loans are in effect converted into gifts to the extent that firms may be growing. Therefore, while we endorse the administration's efforts to obtain realism in depreciation guidelines, we are opposed to other proposals which have been made to shorten depreciation schedules arbitrarily and to such an extent that windfalls on already-existing equipment would be provided.

Investment in human resources

The President's recommendations for investment in our human resources call for legislation to—

1. Provide Federal aid for training and retraining of unemployed workers (passage of proposed Manpower Development and Training Act).

2. Establish pilot programs to expand employment opportunities for young people, including training, employment in public service jobs, and employment in a newly established Youth Conservation Corps (passage of proposed Youth Employment Opportunities Act).

3. Increase appropriation for the U.S. Employment Service, to enable that agency to better fulfill its function of matching available jobs and workers.

4. Amend the Welfare and Pension Plans Disclosure Act so as to (a) provide adequate penalties for embezzlement and (b) to vest authority in a responsible Federal agency to enforce the statute by issuing binding regulations, prescribing uniform reporting forms, and investigating violations.

5. Provide Federal aid to education, including assistance to States for provision of more adequate public school facilities and higher teachers' salaries and—at the higher education level—loans for construction of facilities and for scholarships to able students who need help.

Congress has already acted favorably on the proposed Pension and Welfare Plans Disclosure Act, and on the proposed Manpower Development and Training Act. We hope it will act promptly and favorably on the other three recommendations.⁴ These recommendations will make important contributions toward raising the Nation's education and training levels—a primary source of economic growth—and toward reducing so-called frictional and structural unemployment. The Nation has had altogether too much waste of its human resources

⁴ Mr. Patman dissents from the recommendation, as stated, concerning aid to education, adding: "I am fully aware, however, that it is vital to our Nation's future to raise, and raise substantially, the levels of education and training of our young people. Soviet Russia is now training more than twice as many scientists and engineers as we are."

because of workers' lack of the education, training, and background suited to current job opportunities.

The Nation's loss from young people dropping out of school because of a lack of financial resources, on the part of the pupils or the school systems, involves a staggering waste of national assets which we can ill afford. The exact form and extent of the aid proposed may involve matters of law and constitutionality, as well as social and political policy; but these are outside the purview of this committee. We strongly support the proposition that some way must be found to provide educational opportunities for all children, commensurate with their abilities to profit from such opportunities.

INTERNATIONAL TRADE AND BALANCE-OF-PAYMENTS POLICIES

Over the past 28 years, the policy of the United States has been to promote a greater flow of goods, services, and capital across national boundaries. This policy has been based on the belief not only that economic interchange promotes peaceful relations among nations, but that it promotes economies from which all nations benefit.

New developments among the trading nations now confront us with a necessity for new trade legislation, and for new arrangements, to reduce the deficit in our balance of international payments. The President's authority to negotiate reciprocal tariff reductions under present legislation is now substantially exhausted. At the same time, however, the new force of the Common Market in Europe makes it necessary that the President have authority for negotiating large reciprocal tariff reductions, and also have authority for negotiating on a broader basis than present legislation permits.

New trade legislation

The President has recommended new trade legislation which encompasses most of the authority and safeguards that we believe necessary to maintain and expand our foreign trade, while providing assistance to domestic firms and workers who may have to adjust to new activities.

In general, we favor the President's proposed legislation, but we do not believe that it goes far enough in respect to provisions for adjustment assistance. We feel that the new legislation should make provision for assistance to communities, as well as to firms and workers. In addition, we recommend that the legislation provide for grants for adjustment assistance, as well as for loans to firms and retraining programs for workers.

As a general matter, we would also emphasize what has been learned from the Common Market experience—that both workers and business firms make the easiest and best adjustments to new activities in an economy operating at high levels of production, an economy that is growing and offering expanding opportunities.

In the interest of efficient division of labor, the greatest attention should be paid to bargaining down Common Market tariffs against our agricultural products. Conversely, as we move toward freer trade, we must make certain that U.S. manufacturers are not discriminated against when it comes to purchasing their agricultural raw materials, such as cotton and wool.

An important byproduct of a trade partnership between the United States and the Common Market should be closer alinement of policies regarding trade with the Communist bloc. The United States cannot hope to counter the disruptive effects of Communist trade by going it alone. What is needed is a common approach on the part of all the major industrial powers in the free world, particularly in the matter of trade in strategic materials. Such an approach will be much easier if expanding trade opportunities within the free world are assured.

Finally, as a safeguard against the eventuality that negotiations do not prove as successful as we anticipate, we also think the new trade legislation should specifically authorize the President to raise tariffs, as well as to lower tariffs.⁶

Balance of payments

The proposed new trade legislation will not solve our immediate and pressing balance-of-payments problem. This will take vigorous and immediate steps to obtain fair concessions from the countries of Western Europe. These countries should meet a larger share of the cost of our mutual defense, and those now enjoying a surplus of payments should assume a larger share of the burden of aiding the underdeveloped countries. There must be a prompt reduction of approximately \$2 to \$3 billion in our payments deficit. Furthermore, the major industrial nations should work out improved international monetary arrangements whereby they may better utilize their monetary reserves. We believe that:

1. The Common Market countries of Western Europe owe the rest of the free world a substantial unilateral reduction in their tariffs, to offset the growing discriminations against the rest of the free world which are inherent in the emerging tariffs of the Common Market countries.

2. Those countries of Western Europe which are now enjoying a surplus payments position should increase their aid to underdeveloped countries generally—not just extend aid to colonies or associated territories.

3. Those NATO countries now making disproportionately small contributions to our mutual defense should increase their contributions; contributions should be available for base operating expenses, whether for civilian personnel, construction, land or supplies.

Specifically, what is needed is for the major industrial nations to sit down in conference and agree on a set of recommendations for balancing out the hard-core \$2 to \$3 billion in U.S. payments deficits and their corresponding European payments surpluses. We would hope that the recommendations for balancing would be achieved by European action with respect to unilateral tariff reductions, greater development aid, and larger defense contributions, rather than by recommendations for U.S. import restrictions, curtailment of U.S. tourist travel, restrictions on capital movements, and other undesirable measures.

⁶ Mr. Boggs dissents, saying: "The recommendation seems to suggest that tariffs ought to be raised at times, not for the protection of domestic industries, but as a device for bargaining with our trading partners. Such a suggestion would of course be contrary to both the principles of a liberal trade policy and the rules of GATT."

Supplemental IMF Fund

The President has recommended, as one step dealing with the balance-of-payments problem, that Congress—

Enact enabling legislation for U.S. participation in the recent agreement among 10 major industrial countries to lend specified amounts of their currencies to the International Monetary Fund when necessary to cope with or forestall pressures which may impair the international monetary system.

We believe that the Congress should approve this proposal, and that the other participating nations should do likewise.

However, we also recommend that negotiations be continued for a more adequate international credit arrangement. A more adequate arrangement will permit automatic lending procedures, not just those individually approved by the separate countries involved. Furthermore, there should be larger contributions from the nondollar and nonsterling participants in the supplemental fund.

STRENGTHENING COMPETITION

By eliminating monopolistic and collusive barriers to the entry of new business and by maintaining the spur of competition to innovation and the utilization of technology, antitrust enforcement tends to create conditions which encourage economic growth (p. 127).

This statement by the Council of Economic Advisers puts succinctly the considerations which lead this committee to make several recommendations on antitrust policies at this time. We believe that:

1. The Antitrust Division of the Department of Justice and the Federal Trade Commission should devote increased efforts to the elimination of existing monopoly power, reflected for the most part in markets where a small number of producers, without engaging in overt collusion, dominate sales and jointly frustrate public policy.

2. There should be a prompt intensive study of market domination in industries characterized by relatively few large companies with a tradition of price leadership, (a) to ascertain among other things, the relationship between size and efficiency, prevalence of excessive pricing, their relationship to inflation and recession and other effects on the economy; (b) to examine and clarify the role of the antitrust laws in relation to price leadership, to point up where they are in need of strengthening and, conversely, where they are not appropriate instruments of regulation; (c) to determine what other public measures may be required to assure the competitive vigor of the economy.

3. The competitive factor must be assigned a more important role in the work of the various Federal regulatory agencies, particularly in respect to the approval of corporate mergers. The right of the Antitrust Division to intervene in proceedings before the agencies should be carefully defined by law wherever necessary. Moreover, whenever an agency approves a merger that may have the reasonable probability of lessening competition it should be required by law to find that the anticipated benefits of the merger cannot feasibly be realized in any way other than by the contemplated merger.

4. Monopolistic mergers are now often consummated before the Department of Justice or the Federal Trade Commission know of the plan for merger. After mergers are consummated, furthermore, the Government finds it difficult to force dissolutions—and indeed the time required to pursue such matters through the courts may leave no real opportunity to undo the competitive damages. We are in favor of legislation to require premerger notification by large firms proposing mergers.

5. The requirement for public reporting of identical bids made to Federal agencies should be made a permanent part of the law. H.R. 8603 (originally introduced as H.R. 4570), introduced by the committee chairman, would accomplish this, as well as serve additional worthy purposes. It passed the House on August 22, 1961, and is now before the Senate Committee on Government Operations. We recommend its early enactment.

6. Expanded opportunities for small business are definitely in order, as a vital adjunct to our traditional antitrust policy and to our national ideal of opportunity open to all.

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.

SUPPLEMENTARY VIEWS OF HENRY S. REUSS

The President and the Council of Economic Advisers have submitted a comprehensive and exceptionally thorough Economic Report. Quite apart from the substance of the report, the concept of responsibilities under the Employment Act of 1946, as reflected in the report, is far more in accord with the requirements of the act than has been the case in recent years.

I have repeatedly pointed to five defects in the reports in the past, as measured by the requirements clearly imposed by the Employment Act. These deficiencies of performance which led to the introduction of H.R. 12785 in 1958 and H.R. 6263 in 1959, are discussed in detail in the published hearings on the bills by the House Government Operations Committee. (Hearings before a Subcommittee of the House Committee on Government Operations, 85th Cong., 2d sess., on H.R. 12785, July 21 and 22, 1958; hearings before a Subcommittee of the House Committee on Government Operations on H.R. 6263, March 25, 26, and April 9, 1959.) The five particulars in which past reports failed to fulfill duties under the Employment Act were:

(1) They cast doubt on whether reasonable price stability was a goal of the Employment Act. Despite the fact that the public, the Congress, and the first two Chairmen of the Council of Economic Advisers had believed that the act's goal of "maximum purchasing power" had included the concept of reasonable price stability, the President in the Economic Report for 1959 said:

* * * the Congress is requested to amend the Employment Act of 1946 to make reasonable price stability an explicit goal of Federal economic policy, coordinate with the goals of maximum production, employment, and purchasing power now specified in that act. Such an amendment would strengthen Government's hand in restraining inflationary forces and would help build a public opinion favorable to the adoption and vigorous application of needed measures. This amendment would make it clear that Government is as determined to direct its policies toward maintenance of price stability as it is to employ them in combating economic contraction (Economic Report of the President, January 1959, pp. 52-53).

(2) They failed to state in quantitative terms, as required by section 3 of the act "the levels of employment, production, and purchasing power * * * needed to carry out the policy declared in section 2," or to state in quantitative terms "current and foreseeable trends in the levels of employment, production, and purchasing power." Chairman Saulnier of the Council of Economic Advisers stated in a letter to the House Committee on Government Operations on March 13, 1959:

* * * The Council considers it unnecessary, impractical, and inadvisable to quantify the concepts of "maximum"

employment, production and purchasing power * * *. Current trends are described quantitatively * * *; foreseeable trends, on the other hand, are discussed in general terms and we believe this is the only suitable way to discuss them in such reports * * * (hearings before a subcommittee of the House Government Operations Committee, 86th Cong., 1st sess., Mar. 25, 26, and Apr. 9, 1959, pp. 202-203).

This construction of the act was so restrictive that in 1959, for example, no estimates of expected employment or gross national product for the year were published, even though these estimates had, of course, been necessary in arriving at Federal revenue figures for the budget.

(3) From 1953 through 1960, no advantage was taken of the provision in the act to—

transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable * * *.

Prior to 1953, the President had issued midyear supplementary reports, which were especially relevant and necessary when significant shifts in economic trends had occurred or were foreseen. Because of the mechanical policy of writing a report for January of each year only, the Congress was not, for example, provided with the facts or considerations which led to a drastic shift in economic policies in the summer of 1958 from one of fighting recession to one of fighting inflation.

(4) During the period 1953-60, the reports failed to state what monetary policy should be for the year ahead, on the ground that the Federal Reserve is an independent agency of Government. The Employment Act was construed by the President to mean that the Government as a whole should not have a monetary policy at all, much less one coordinated with expenditure, tax, and other governmental policies, including the credit policies of the many Federal agencies under the President's direct control. The delicate regard for the independence of the Federal Reserve System was not accompanied by similar inhibitions in the case of other groups in the economy. The President did not hesitate to address dozens of specific recommendations to Congress, to State and local governments, to private management, or to labor unions—all indubitably independent of the executive branch of the Federal Government. But with respect to monetary policy, Chairman Saulnier of the Council of Economic Advisers, testified to the Joint Economic Committee in 1958:

In the Economic Report we have expressed no judgments as to the adequacy or inadequacy of credit policy. We have done the best we can do to describe that policy and to describe the movement of our economy, and have left evaluations of it completely out of the story (Joint Economic Committee, "Hearings on January 1958 Economic Report of the President," p. 20).

The 1959 Economic Report merely stated:

Responsibility for monetary and credit policies rests with the Federal Reserve authorities who have independent

status within Government * * * the pursuit of appropriate monetary (and) credit * * * policies would help attain rising production and employment at stable prices (Economic Report of the President, January 1959, p. 52).

(5) Vigorous objections were raised against the proposals that the President directly, or indirectly through an agency like the Council of Economic Advisers, should bring public opinion to bear on particular proposed wage or price increases, in large strategic industries, which might have an overall inflationary impact on the economy. The proposals would have necessitated the formulation of appropriate criteria for both wage and price increases. It would then have been necessary for the President or his representatives to discuss these criteria with industry and labor before undesirable decisions had been taken. In addition, the President could have made public all the facts, and the applicable criteria, as well as any specific recommendations in a particular case where a threatened wage or price decision would have an inflationary impact on the economy.

Chairman Saulnier of the Council of Economic Advisers reacted to the proposal, in his letter to the House Government Operations Committee on July 1, 1958, by saying:

* * * to revise the language of the Employment Act along the lines proposed in section 3 of H.R. 12785 would seem not only to invite but to require Presidential intervention in decisions relating to specific wage and price increases. Such intervention would, in our judgment, be altogether undesirable (hearings before a Subcommittee of the House Government Operations Committee, 85th Cong., 2d sess., on H.R. 12785, July 21 and 22, 1958, p. 103).

In line with this point of view, the President confined himself to repeated but generalized admonitions addressed to the public, to industry, and to labor. For example, in his state of the Union message of January 10, 1957, the President said:

And, if our economy is to remain healthy, increases in wages and other labor benefits, negotiated by labor and management, must be reasonably related to improvements in productivity. Such increases are beneficial, for they provide wage earners with greater purchasing power.

Except where necessary to correct obvious injustices, wage increases that outrun productivity, however, are an inflationary factor. They make for higher prices for the public generally and impose a particular hardship not only on the active workmen, but on those whose welfare depends on the purchasing power of retirement income and savings. Wage negotiations should also take cognizance of the right of the public generally to share in the benefits of improvements in technology (hearings before a subcommittee of the House Government Operations Committee, 85th Cong., 2d sess., on H.R. 12785, July 21 and 22, 1958, p. 9).

At his press conference on June 26, 1957, the President said:

The only point I make is this: Government, no matter what its policies, cannot of itself, make certain of the sound-

ness of the dollar, that is, the stability of the purchasing power of the dollar in this country. There must be statesmanlike action, both by business and by labor. Frankly, I believe that boards of directors of business, of business organizations, should take under the most serious consideration any thought of a price rise and should approve it only when they can see that it is absolutely necessary in order to continue to get the kind of money they need for the expansion demanded in this country—and at the same time labor should demand wages, wage increases that conform roughly to the increase in productivity of the individual, and the only exception I think they ought to make to that, when there are demonstrable injustices existing in particular areas (*ibid.*, p. 9).

In a speech on May 21, 1958, he said:

The American people are going to be looking over the shoulders of those sitting at every bargaining table to see whether the wage settlement and subsequent price decisions are consistent with a stable dollar (*ibid.*, p. 9).

In his January 1958 Economic Report, the President said:

Business managements must recognize that price increases that are unwarranted by costs, or that attempt to recapture investment outlays too quickly, not only lower the buying power of the dollar, but also may be self-defeating by causing a restriction of markets, lower output, and a narrowing of the return on capital investment. The leadership of labor must recognize that wage increases that go beyond overall productivity gains are inconsistent with stable prices, and that the resumption of economic growth can be slowed by wage increases that involve either higher prices or a further narrowing of the margin between prices and costs (Economic Report of the President, January 1958, p. v).

The trouble with these generalized admonitions was that everyone thought the President was referring to the other fellow. Labor was convinced, in any given situation, that the President was admonishing industry against price increases, while management thought he was lecturing labor unions against unreasonable wage demands.

The failure to take appropriate action was accompanied by, or perhaps due to, failure to identify the nature of the inflation which can occur even when unemployment and idle plant capacity exist. That there is a difference between the cost-push type of inflation in administered-price industries and demand-pull general inflation was recognized very belatedly. Hence, the Washington Post considered it headline news when Mr. Woodlief Thomas, economic adviser to the Federal Reserve Board, acknowledged on March 12, 1959, that Dr. Gardiner Means' studies of administered inflation contributed—

to a better understanding of the problems of inflation and fluctuations in economic activity and employment * * *. This contribution is in pointing out that there are unstabilizing forces in pricing actions of the private economy—on the part of both management and labor—that cannot be

effectively controlled or corrected by governmental actions in the area of fiscal and monetary policies.

Recognition that the Government must not rely on mere generalized admonitions has taken even longer. Mr. Saulnier, now testifying as a private expert witness, before the Joint Economic Committee during hearings on the 1962 Economic Report found fault with the administration for not intervening in a recent local dispute involving wage increases and hours of work of electricians in New York City. He said:

Now frankly I do not know how the Government should have intervened in this. What did happen, in fact, was that the President, after it was all over, stated his regrets. I think this was right. It is regrettable. But I would like to think that it might have been possible to have stated this earlier. to have brought to bear on this question a greater force of public opinion and perhaps to have avoided this outcome (hearings, p. 496).

Hearings on my bills for strengthening performance under the Employment Act, H.R. 12785 and H.R. 6263, were held in July 1958, and March-April 1959, respectively. H.R. 6263 was reported out by the House Government Operations Committee on June 12, 1959, but it died in the Rules Committee at the end of the 86th Congress. An identical bill, S. 2382, which was introduced in the Senate on January 17, 1959, by Senator Joseph Clark of Pennsylvania, Senator Proxmire of Wisconsin, and Senators Byrd and Randolph of West Virginia, had hearings before the Subcommittee on Production and Stabilization of the Senate Banking and Currency Committee in February 1960. No further action was taken by that committee.

The failure of past reports to meet responsibilities in the five areas listed above was, of course, not due to need for clarifications by Congress of the language of the Employment Act. Adequate performance, in accordance with the objectives of the act, has been and is possible. This has been amply demonstrated in the reports of the present Council of Economic Advisers in March 1961, and again in January 1962. It is gratifying to be able to point out the way in which the present Council has used the framework provided in the Employment Act for reporting and action in the five areas I have discussed:

(1) *Price stability*.—In answer to a question by Senator Bush during the hearings on the 1962 Economic Report, Chairman Heller of the Council of Economic Advisers stated:

* * * that the price stability objective seems to us to be clearly implicit in the 1946 Employment Act. If we are going to maintain maximum production and employment and purchasing power, I should think that price stability is one of the prime requisites * * * (hearings, p. 13).

(2) *Quantitative statement of goals and foreseeable trends in the levels of employment, production, and purchasing power*.—Although the Council of Economic Advisers admits frankly that there are difficulties and risks in economic forecasting, it states that—

neither Government nor private enterprise can conduct its affairs, develop its policies, and make its decisions without

economic projections * * *. For example, it would be impossible to formulate either Federal or State budgets without projections of future levels of income and business activity and the tax revenues they will produce (Economic Report, p. 62).

The President states in his 1962 Economic Report that the goals for 1963 are a reduction of unemployment to 4 percent as a temporary target, a gross national product of \$600 billion. The President also states that we must seek full recovery from the recession and go on to full employment without inflation. Further, during the decade of the 1960's, the President states that—

we should not settle for less than the achievement of a long-term growth rate matching the early postwar record. Increasing our growth rate to 4½ percent a year lies within the range of our capabilities during the 1960's (Economic Report, p. 9).

In the report of the Council of Economic Advisers, the foreseeable level of employment by the end of 1962 is put at a rate of "5 percent or somewhat lower" and gross national product is projected for the year 1962 at \$570 billion.

(3) *Supplementary economic reports.*—The present Council of Economic Advisers submitted a report in March 1961, despite the fact that the previous Council had filed its report just 2 months before. The present Council properly took the view that with a change of administration, and a new administration which proposed to adopt new policies, it was necessary to report to the Congress in accordance with the provisions of the Employment Act.

(4) *Recommendations on monetary policy.*—Both in the March 1961, and the January 1962, reports of the Council of Economic Advisers, there are lengthy discussions of monetary policy appropriate to the particular conditions foreseen in the immediate future.

The March 1961 report sets out monetary policy necessary during a recession period within the limits of balance-of-payments considerations. The report states clearly that the objective of policy then being followed by the Federal system was—

To lower long-term interest rates, in order to increase business investment and residential construction, while maintaining the discount rate and related short-term rates at internationally competitive levels (hearings, Joint Economic Committee, 87th Cong., 1st sess., February, March, April, 1961, p. 347).

Further—

the economy needs the stimulus of low interest rates and greater credit availability, not merely for recovery of the ground lost in the recession, but for the more difficult and important tasks of restoring full employment and promoting growth (ibid., p. 349).

A major portion of the Council's section devoted to "Policies for maximum employment and production" in its 1962 report is concerned with monetary policy and its proper coordination with other major economic policies to achieve domestic and international economic

objectives. After explaining that monetary policy must be coordinated with fiscal policy in order to obtain a given stabilization objective, the Council states that—

the stabilization of demand at full employment levels by a budget surplus compensated by an expansionary monetary policy is favorable to growth (Economic Report, p. 85).

It points out, however, that—

on the other hand, monetary policy may in some circumstances be constrained by the balance of payments (*ibid.*, p. 86).

The Council concludes—

interest rates may appropriately be more stable and—

the appropriate expansion of liquidity will depend upon the strength of private demands, on the tightness of fiscal policy, and on the balance of payments position (*ibid.*, p. 92).

(5) *Bringing to bear the public interest in wage-price decisions which may threaten general price stability as recovery continues.*—In this Economic Report, the President states that—

we do not foresee in 1962 a level of demand for goods and services which will strain the economy's capacity to produce. Neither is it likely that many industries will find themselves pressing against their capacity ceilings. Inflationary pressures from these sources should not be a problem (Economic Report, p. 16).

However, the President explicitly recognizes that—

in those sectors where both companies and unions possess substantial market power, the interplay of price and wage decisions could set off a movement toward a higher price level (*ibid.*, p. 16).

He counsels labor leaders to accept the productivity benchmark as a guide to wage objectives.

The Council of Economic Advisers devotes 23 pages of its report to an explanation of price behavior in the economy and includes general guideposts on wage and price decisions, particularly appropriate in the parts of the economy where firms are large or employees well-organized, or both. After stating that noninflationary wage decisions should in each industry be equal to the rate of overall productivity increase and giving general rules relating productivity increase to price policy, the Council sets forth four important modifications of the general rules where wage increases could exceed or fall below the general guide rate and where prices would either rise more rapidly (or fall more slowly) or rise more slowly (or fall more rapidly) while preserving the stability of the general price level.

Even before these statements on wage-price goals the President took personal action in September 1961 when it was reported that the steel industry was considering price increases, by addressing letters to the heads of the 12 largest steel companies, urging them to forego any increases. Also, since the first of the year, the Presi-

dent and the Secretary of Labor have urged the United Steelworkers, whose contract expires in June 1962, not only to seek new contract terms which would be in accord with the applicable productivity rule but also to start negotiations early so that there would be no repetition of the costly 1959 strike and no undue accumulation of steel products inventories in anticipation of such a strike.

The Council of Economic Advisers has taken a hand in another area of wage policy which is of nationwide significance. According to a Washington Post report of February 13, 1962, Chairman Heller of the Council discussed the administration's wage goals for this year with the Communications Workers of America, at the specific invitation of the union. The union's officers agreed that this discussion will condition the climate of its negotiations with telephone companies throughout the country. CWA President Joseph A. Beirne contrasted favorably this readiness to discuss appropriate wage standards with former President Eisenhower's general exhortations, on the one hand, and the refusal of Mr. Saulnier, former Chairman of the Council of Economic Advisers, to address the union's wage policy group, on the other. The union president stated that Mr. Heller's statements to the group were useful since both industry and labor now know what range of wage increases is considered noninflationary under present economic circumstances.

By utilizing the framework of the Employment Act, particularly in the five areas I have discussed above, the President and the Council of Economic Advisers have appropriately recognized the intent of Congress in conferring broad responsibility for economic policy on all executive agencies of the Federal Government. In doing so, the President and the Council have restored to the Employment Act a usefulness which has long been lacking.

HENRY S. REUSS.

INDIVIDUAL VIEWS OF SENATOR WILLIAM PROXMIRE TO THE MAJORITY REPORT OF THE JOINT ECONOMIC COMMITTEE

While I find much to applaud both in the President's Economic Report and the report of the majority of the Joint Economic Committee to which these views are attached, I find it necessary to write these individual views for three main reasons.

OPPOSE MAJORITY CRITICISM OF BUDGET AS TOO RESTRICTIVE

First I must express vigorous disagreement with the shocking conclusion of the majority that the proposed budget may be too restrictive, that the relatively small surplus projected by the Treasury for the coming fiscal year on highly optimistic assumptions may be too large for the good of the economy.

The majority conclusion is an extreme reliance on what has become the new economic orthodoxy, the now predominantly accepted economic theory that the Nation must run a deficit as long as there are substantial unused economic resources.

Relying on this theory, the majority by implication counsels our Government—in the coming fiscal year—to run a deficit in the administrative budget, a deficit that would increase the national debt even if the coming fiscal year turns out to be a record-smashing boom year. If this advice had been followed in the past, this Nation would have run deficits in virtually every peacetime year of this century. Since deficits are all but certain in wartime—such a course would have given this country a truly astronomical national debt by today. Service costs on the national debt, already the second heaviest cost of the Federal Government, would have rivaled the immense defense costs as a burden on the taxpayer.

The position of the majority in objecting to the administration's small surplus as "too restrictive" is also wrong because it overlooks the fact that the principal economic impact of a budget is in the swing from deficit to surplus. The swing in the coming fiscal year is moderate.

All this is not to say that there is not a solid and proper case for compensatory fiscal policy. Certainly in the event of a serious depression or even a prolonged recession, a very strong case can be made against a surplus, and for following an expansionary fiscal policy in Government taxing and spending.

But the policy of deliberately planning a deficit in a predicted boom year in our economy is unconscionable.

This policy is not only wrong because of the immense national debt burden it would assure. It is also wrong because it would destroy whatever basis there now is for discipline and efficiency in Federal spending. Under this doctrine proponents of additional Government spending cannot only contend for the benefits of the service their spending would provide, they can almost always argue that the spend-

ing should involve no taxing because the resulting deficit will be a healthy thing for the economy and put idle resources to work.

The policy is also wrong because there is little evidence that it will work. There is no empirical evidence that the heavy spending and the immense and steady deficits—in relation to gross national product—in the thirties were a significant factor in pulling the Nation out of that depression.

The policy is wrong because its proponents assume that a relatively moderate shift on the order of \$2 or \$3 billion in the balance between Government spending and taxing can have a major effect on a \$550 billion economy.

The policy is wrong because it overlooks other more promising alternatives.

MAJORITY REPORT FAILS TO CONSIDER GOVERNMENT POLICY IMPACT ON SUPPLY OF LABOR

Alternatives to compensatory fiscal policy bring us to our second reason for these individual views.

There is almost no recognition expressed in the majority report of the possibility of approaching the unemployment problem from the supply side of the equation. The number entering the labor force and the number staying in the labor force are apparently regarded as beyond the pale of governmental policy although perhaps the biggest contribution to the reduction of unemployment in this country and in free enterprise economies abroad has been in raising the age at which young people enter the labor force and especially reducing the age at which old people retire from it. Just during the past year a significant though generally overlooked contribution of a change in the social security system to reduction of the labor supply was in the reduction of the male retirement age to 62.

The contribution of the development of the social security system alone to the reduction of both the labor force and unemployment dwarfs the role that compensatory fiscal policy has played. What is more, substantial improvement—as through social security—in the opportunity for workers to retire earlier makes a longrun, secular contribution to unemployment. Compensatory fiscal policy can at best only iron out the valleys and peaks. Since present unemployment is viewed as a secular rather than cyclical problem, compensatory fiscal policy is peculiarly unsuited while improvement and expansion of social security is especially suited to meet the problem.

Complementing the social security approach should be emphasis on a systematic study of entrance to the labor market. For example, the simple act of increasing the age at which children leave school to enter the work force by 1 or 2 years, could at one stroke immensely reduce the unemployment problem. Because of dropouts before high school graduation and the poor preparation for employment of many high school graduates, unemployment is extremely heavy among the young. Of course, this is an action that could not and should not be taken by Federal fiat. On the other hand, Congress and especially the President of the United States could have significant influence in persuading State and local authorities to increase the school-leaving age.

An extra year or two in school combined with heavy emphasis on vocational education during that year for those who intended to enter

the labor force immediately upon the conclusion of their high school education could reduce unemployment in two ways. With more young people in school there would perforce be fewer young people seeking work. With young people out of high school better prepared for available jobs, there would be a diminution both in unfilled skilled jobs and youthful unemployment.

DISAGREEMENT WITH PRESIDENTIAL RECOMMENDATIONS

My third reason for these individual views is to express my disagreement with the report's support of several of the President's legislative recommendations to this session of Congress.

TEMPORARY INCOME TAX CUT

The President has recommended that Congress delegate to him the authority to reduce the personal income tax temporarily. I emphatically oppose this request. While the majority report does not wholeheartedly support this Presidential request, it does not directly oppose it. I do.

In the event of a serious economic setback, a tax cut might be desirable. Under such circumstances I am confident that the Congress would promptly respond to a Presidential request to reduce taxes. Indeed, no witness at the Joint Economic Committee's hearings was able to adduce a single instance when a Presidentially requested tax cut was not granted.

It might be good public policy for the Congress to agree with the administration on the type of tax cut that would be most useful to combat a serious economic setback. It might be desirable for Congress to agree to give congressional priority to any such request.

But for the Congress to surrender even part of this prime congressional power over taxes on such scanty justification would be very unwise. The balance of power between the Legislature and the Executive has shifted significantly and perhaps necessarily in recent years to the advantage of the Executive. For Congress to surrender its good right arm—its taxing power—would mark a very harmful and unnecessary weakening of congressional power.

PRESIDENTIAL PUBLIC WORKS DISCRETION

For many similar reasons I am opposed to the President's request to the Congress to grant him authority to initiate \$2 billion of public works spending whenever unemployment has been rising for 3 out of 4 or 4 out of 6 months and has risen by more than 1 percent above its level 4 or 6 months earlier.

Such a formula, of course, provides immense discretion for the President to spend money without specific congressional approval.

It appears to be based on the theory that there is some spending that ordinarily cannot be justified on its merits; but might be justified in a period of economic adversity as a method of recovery. I disagree that spending which cannot be justified on its merits is likely to be justified in terms of good public policy except in times of very serious economic adversity. While the argument for such spending might have solid merit in the event of a depression, once again—on the record—it is doubtful if any President would have difficulty under

these circumstances persuading the Congress to support a constructive program.

What is more this proposal has the serious demerit of authorizing grants in aid to State and local governments for projects which are peculiarly local in their nature—police and fire stations are an example—and should—if any expenditure should—be left to local discretion and local responsibility.

INVESTMENT CREDIT

Finally, I am vigorously opposed to the investment credit proposal of the administration.

The investment credit proposal is wrong for three reasons: (a) it is inequitable; (b) it would aggravate the business cycle, increasing investment in the upswing of the cycle, reducing investment during the downswing; (c) it would not significantly increase investment.

Equity considerations

The proposed investment credit will, in effect, allow a business investor to obtain tax benefit equal to more than 100 percent of the cost of purchase of an asset. For a corporation in the 52-percent bracket, the investment credit will mean roughly the same as obtaining depreciation equal to 116 percent of the cost of newly acquired assets. The only other case in the tax law where this type of treatment occurs is in the case of percentage depletion.

The credit will, therefore, constitute a new tax loophole. It is a hidden subsidy designed to stimulate investment. However, it is important to recognize that the credit, in its present form, will be given to all taxpayers for almost all purchases of equipment. Therefore, a taxpayer may do only what he would do in any case in order to maximize profits and still receive the benefits of the investment credit. In other words, the investment credit is given even if the taxpayer does nothing unusual in order to receive the benefit.

As a new loophole, the investment credit will be either precedent setting or precedent confirming. Hence, it will make the job of closing other loopholes more difficult.

Cyclical effects

The proposed credit will tend to accentuate business fluctuations. This will be true even if the credit has no effect on investment decisions. The reason for the procyclical characteristics of the credit is that investment tends to be higher in booms than in recession periods. Since the credit is associated with amounts of investment, this means that Federal revenues will be going down relatively exactly at the times when Government revenues should be rising and Federal revenues will be relatively higher in recession periods. Consequently, the effectiveness of our automatic stabilizers would be watered down by the investment credit.

Accentuation of cyclical fluctuations tends to reduce rates of growth because of the losses of production during periods of under full employment. Therefore, the investment credit will definitely serve to slow growth rates through its cyclical impact. A similar example of this occurred after the adoption in 1954 of the accelerated depreciation

methods. There was a boom in investment which led rapidly into a recession period and the average rate of growth after 1954 has actually been less than in the period prior to 1954.

The same types of economic effects hoped for from the credit could be obtained simply through an easier money policy. Both the credit and interest rates affect only the cost considerations in investment decisions.

Economic effectiveness

It is hoped that the investment credit will encourage modernization and expansion of capital equipment and therefore stimulate economic growth. However, it seems doubtful that the credit will, in fact, stimulate much investment that would not otherwise occur. The credit, of course, can only be justified to the extent that it encourages new investment over and above that which would be made without the credit.

There are several reasons for doubting that the credit will have much influence on investment decisions.

First, there are the comments which are made by the business community itself. A recent Wall Street Journal survey of 68 substantial firms showed that only one (Radio Corp. of America) planned to step up investment significantly because of the credit. Most firms viewed the credit as a welcome windfall in profits but of little or no significance in determining investment policy.

Second, there is considerable excess capacity which exists in manufacturing concerns and it would seem unrealistic for businessmen to expand capacity when they already have more than they can effectively use.

Third, it has been argued that the business community needs more funds in order to invest more fully, but the evidence points the other way. Corporate profits, as a proportion of that part of GNP arising in the corporate sector, have actually been increasing. Furthermore, retained earnings, plus depreciation allowances, now actually are greater than new investment being undertaken by firms. Hence, cash flows are adequate for additional investment, even ignoring the possibilities for new borrowings and new capital flotations.

Fourth, in order for the economy to reap benefits from the new investment, it will be necessary for price reductions to occur in order to have expanded markets. The history of price reductions in the last few years is not promising in this respect. It seems far more likely that, as in the case of accelerated depreciation deductions, firms will simply increase their target rates and thereby retain more profits for dividend payments and other purposes rather than expanding investment.

There are many alternatives to the investment credit and more consideration should probably be given to these alternatives before accepting the credit. The investment credit will involve a revenue loss of at least \$1.8 billion in the first year and increasing amounts as investment rises. A major alternative, if tax reduction is to be used, is a reduction of personal income taxes. Such a reduction can stimulate aggregate demand for the goods which capital equipment can produce and thereby lead to an expansion of investment, as well as consumption. Considerable personal tax reduction could be obtained

in lieu of the investment credit. Another major alternative is a reduction in the excessively high corporate income tax rate.

Revenue loss

Proponents have argued that it is necessary to accept the investment credit in order to obtain the loophole closing features of the present bill. Some of these loophole closing features are being lost from the bill. With their loss the Treasury loses the revenues necessary to balance the revenue loss involved in the investment credit.

MINORITY VIEWS

INTRODUCTION

We emphatically agree with the importance the majority attaches to the U.S. balance-of-payments problem and just as emphatically disagree with their analysis of the causes of and remedies for the Nation's other most important economic problem—the persistence of a high rate of unemployment.

It is always pleasant to accentuate the positive. Accordingly, we first stress our endorsement of the committee's statement that the President's proposed trade legislation alone will not solve the dangerous balance-of-payments problem, but that a solution will require a fairer sharing of the free world's burdens by the countries of Western Europe.

So important are the bipartisan conclusions reached by the committee on this problem that they bear repetition at this point:

The proposed new trade legislation will not solve our immediate and pressing balance-of-payments problem. This will take vigorous and immediate steps to obtain fair concessions from the countries of Western Europe. These countries should meet a larger share of the cost of our mutual defense, and those now enjoying a surplus of payments should assume a larger share of the burden of aiding the underdeveloped countries. There must be a prompt reduction of approximately \$2 to \$3 billion in our payments deficit. Furthermore, the major industrial nations should work out improved international monetary arrangements whereby they may better utilize their monetary reserves. We believe that:

1. The Common Market countries of Western Europe owe the rest of the free world a substantial unilateral reduction in their tariffs, to offset the growing discriminations against the rest of the free world which are inherent in the emerging tariffs of the Common Market countries.

2. Those countries of Western Europe which are now enjoying a surplus-payments position should increase their aid to underdeveloped countries generally—not just extend aid to colonies or associated territories.

3. Those NATO countries now making disproportionately small contributions to our mutual defense should increase their contributions; contributions should be available for base operating expenses, whether for civilian personnel, construction, land, or supplies.

Specifically, what is needed is for the major industrial nations to sit down in conference and agree on a set of recommendations for balancing out the hard-core \$2 to \$3 billion in U.S. payments deficits and their corresponding European payments surpluses. We would hope that the recommendations for balancing would be achieved by European action

with respect to unilateral tariff reductions, greater development aid, and larger defense contributions, rather than by recommendations for U.S. import restrictions, curtailment of U.S. tourist travel, restrictions on capital movements, and other undesirable measures.

We earnestly hope that the administration will take advantage of this expression of bipartisan congressional opinion to call immediately a conference of the Atlantic nations to consider not only a more equitable sharing of the free world's burdens, but other problems which create major barriers to the greater free world unity which must be achieved to win victory in the cold war. These include (1) policy toward trade with the Sino-Soviet bloc; and (2) the role of Japan, Latin America, Africa, and other non-Atlantic nations in the struggle against Communist imperialism.

Such a conference could be held under the auspices of the Organization for Economic Cooperation and Development (OECD), or by the administration's invoking article 2 of the NATO Treaty, which provides that members "will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any and all of them."

The administration has failed to act with sufficient energy and vigor to meet the balance-of-payments problem. Instead, it has sought to persuade the public that the proposed trade program alone will solve it by expanding U.S. exports more rapidly than imports.

In the long run, a mutual lowering of trade barriers by the United States and the Common Market should have the effect of improving our favorable balance of trade. However, such an improvement will be slow in coming, and may not be fully felt until 5 years from now. In the meantime, our balance-of-payments deficit creates an urgent problem which must be solved now—not 5 years hence. The way to start, as the committee has unanimously concluded, is for the administration "to take vigorous and immediate steps to obtain fair concessions from the countries of Western Europe."¹

Although we agree with the majority that the President should have new authority for negotiating reciprocal reductions in trade barriers, we cannot join in its general endorsement of the administration's trade bill. It calls for too great a concentration of power over labor and industry to be entrusted to any one man, and, in our judgment, must be substantially amended before it can be made acceptable.²

The majority report ascribes great credit for the improvement in the domestic situation to a series of governmental measures taken by the new administration, which took office January 20, 1961. The fact is that any slowdown in the economy during 1960 had bottomed out by February 1961, as the Council in its professional analysis recognizes and the majority report of this committee points out in its opening paragraph. It was thus impossible for any Federal action taken by the new administration to have had any marked effect in accelerating the operation of our naturally resilient and dynamic American economy.

¹ Senator Javits feels that enactment of trade legislation to implement the broad objectives set forth by the President (see his National Trade Policy Act of 1962, S. 2840), would contribute materially to our Nation's ability to obtain such unilateral concessions, and he rates higher than the minority report its importance in righting U.S. balance-of-payments problems.

² See "Individual Views of Senator Javits" for his position on the President's authority to make trade agreements.

In his rush to claim credit for recovery, the President forgets that the economic dip in question was the mildest since World War II and that his own advisers characterized the measures taken as a "placebo program" given merely to satisfy the patient. Reportedly writing in foreign newspapers, they said further that—

when you come to add up in quantitative terms what the whole package of programs can be expected to accomplish, you realize how limited the total package really is.

The downgrading of the contribution of the free enterprise system itself begins in the first sentence of the President's report: "the economy," he says, "is responding to the Federal Government's efforts." It always seems difficult for those committed to large Federal spending and Federal manipulation to give credit to the institutions and driving force of the free enterprise system itself.

We share the majority's concern because the administration has failed to deal adequately with the serious unemployment problem which plagues this country. The basic evil of unemployment is that it is an affront to human dignity. There is no more tragic circumstance than that which confronts a man, able and willing to work, who cannot find a job suited to his talents.

In a period of sharply rising output, unemployment dropped but slightly last year. Even more alarming, an examination of the lagging growth in the labor force may mean that unemployment over the past year has actually grown worse rather than better. About 700,000 fewer Americans joined the labor force last year than had been predicted. These 700,000 Americans who "got lost" will, however, enter the labor force as originally expected when more job opportunities open up with a rising level of economic activity. When that happens—and in this we are supported by the testimony of Walter Reuther—unemployment will jump sharply. (For a more extensive discussion of the labor force problem, see app. A, p. 133.)

We believe the administration, and the majority, are fundamentally wrong in their search for a solution to the unemployment problem. They look backward to the past, advocating expansion of demand principally through larger expenditures by the Federal Government. They forget that 7 years of Federal spending on make-work and pump-priming devices failed to solve the unemployment problem of the 1930's. Not until World War II began in Europe, did unemployment drop below 9 million.

Instead of looking to the past, we believe the administration, and the majority, should wake up to the facts of modern life. In most of the countries of Western Europe, the problem today is not one of unemployment, but of overemployment. There are more jobs than workers to fill them.

Why did this come about? There are many reasons, but the evidence suggests that the prosperity of Western Europe resulted primarily from governments exercising fiscal responsibility, stabilizing their currencies and, above all, encouraging free enterprise to expand and to modernize plant and equipment.

Similarly, recent experience in this country illustrates the job-creating potential of tax reductions which release funds to the private economy and stimulate investment and confidence in the future by consumers and the business community. Following the 1954 tax reductions proposed by President Eisenhower, business investment in

new plant and equipment rose sharply from \$26.8 billion in 1954 to \$35 billion in 1956. At the same time, unemployment dropped from 5.6 to 4.2 percent of the civilian labor force.

We believe the administration should move beyond the limited tax incentives for plant modernization it has proposed, which because of their limitations are unsound both economically and taxwise. The administration should work boldly toward a major tax reform which would remove impediments to investment so that the economy would move forward, thus putting people back to work and creating new job opportunities. Before any major tax reform can be undertaken, however, we need a solid, substantial surplus rather than a budget now admittedly in precarious balance.

Congress and the administration will have to discriminate between urgent and essential expenditures and those which might be postponable.³

THE SO-CALLED GROWTH GAP

In going along with the growth rate numbers game played by the Council of Economic Advisers, the majority fails to recognize the fallacy of using gross national product as a measure of the so-called gap between what the economy can produce and what it actually produces. GNP is one of our most valuable statistical tools. But it is seriously limited in measuring meaningful economic growth or capacity, particularly over the short run.

Like all statistical tools, it can be misunderstood or, regrettably, misused by anyone trying to perpetuate the dangerous myth that our dynamic American economy is sagging, lagging or dragging. Ours is not a sluggish and tired economy! In the mistaken belief that it is, the administration would, by misguided tinkering, turn our economic successes into failures and, through neglect, make our failures worse. The fact that we rely increasingly on statistics in political and economic decisionmaking imposes a heavy obligation to use them with honesty and care.

The problems we face are problems of growth—not decline. What we are suffering—particularly in the form of unemployment—are growing pains. They are symptoms of the swift and far-reaching basic growth that is changing the face of our economy. In fact, change is upon us to such an extent that it has become a phenomenon worthy of a new name—automation. We consider this the major domestic challenge of our times. So does the President, according to a statement made at his February 14 press conference. Yet the President's Council of Economic Advisers and the majority of this committee doggedly persist in clinging to conventional wisdom more appropriate to the dark depression days of the New Deal.

Rather than continuing to obscure the real issues and problems of our times through a misuse of GNP figures, we urge the majority to recognize that GNP measures the ups and downs of economic activity, not true economic growth or capacity. Economic activity may be going nowhere or even backward. It includes economic mistakes, such as poor planning, unused surpluses, faulty distribution and production, as well as what in the long run may turn out to be

³ See "Individual Views of Senator Javits" for a discussion of governmental expenditures to stimulate productivity growth and his views on how to deal with the chronic unemployment problem. Also for Senator Javits' views on the legitimacy of Federal Government expenditures and the essentials of budget balance.

real economic growth. Who, for example, would claim that the tremendous rise in GNP during a war is based on real or sustainable growth? On the other hand, expenditures for research, development and education, and improvements in quality—the essential areas on which meaningful economic growth is based—show up not at all or as comparatively minor items in the overall GNP figures.

Discussing the nature of meaningful economic growth in its separate views on the Economic Report of the President last year, the minority said:

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 toward 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.

Because GNP does not measure this meaningful economic growth, we do not believe it should be relied upon so heavily for policy guidance. In view of its defects, acknowledged by the Council of Economic Advisers in its second appearance before the committee last year, we cannot accept as valid a concept of economic potential

based on actual GNP and from which an alleged "growth gap" is derived. The policies which the majority would adopt to close the gap are more appropriate to an economy of scarcity than to our economy of plenty and the new and challenging problems which it presents.

BALANCE OF PAYMENTS

Restoration of reasonable balance in our international payments will require the discipline of fiscal responsibility by the Federal Government and understanding and restraint by business and labor. Only in this way can we create conditions at home which will lead to a strengthening of our international payments position. Only in this way can we assure the rest of the world of our intention and ability to behave in a manner fitting to our leadership role. We agree with the President's Council of Economic Advisers when in its 1961 report it said, "domestic policy must be framed with an eye to the balance of payments."

The majority appears aggrieved that domestic economic policy—particularly monetary policy—has been fixed with an eye to the balance of payments. They acknowledge the balance-of-payments problem and, indeed, as we have said, they offer some correctives with which we fully agree. Among these are greater efforts to induce our European allies to assume a larger share of the common defense and development aid burden. But, while recognizing the problem, the majority charges that it has been "overplayed as a reason for pursuing a tight-money policy." They dismiss concern over the drain in U.S. gold stocks as "nervousness" and speak disparagingly of "the balance-of-payments specter."

This attitude is in contrast to the Economic Report of the President, which says that "monetary and debt management policies must continue to protect the balance of international payments against outflows of short-term capital." During 1961, the President said, "The Federal Reserve System maintained general monetary ease" and, complemented by Treasury debt management policies, "served to counter upward pressures on long-term interest rates" while "countering downward pressure on short-term rates." This view was supported at committee hearings by a number of expert witnesses.

The annual report of the Council of Economic Advisers observes that interest rates began declining in 1960 aided by a gradual reversal of Federal Reserve policy, but that this policy was "constrained by a serious balance-of-payments situation." The moderate increase in long-term rates after May 1961 the Council ascribes to "response to recovery."

As in the past, the majority is critical of sound monetary policies; critical of the Federal Reserve and debt management policies; doctrinally critical of the "bills preferably" policy; and obsessed with interest as a cost rather than an inducement to save.

The majority's charge that the Federal Reserve has failed to allow the money supply to grow at a rate appropriate to the growth of gross national product is not fully supported by the Council of Economic Advisers, which says that Federal Reserve and Treasury policies "provided the basic liquidity necessary for economic expansion." While the money supply increased by 3 percent, "liquid assets held by the public * * * grew by 7 percent in 1961, paralleling the rise in GNP."

The majority puts the attainment of rapid economic growth above all other objectives and, in doing so, recommends policies which we consider potentially damaging to our already bad international payments position. As banker for a large part of the world, the United States is compelled to follow policies which, while not deterring growth, will provide jobs for all who want them, and which will at the same time insure price stability and avoid wide fluctuations in the level of business activity. In the words of the Council of Economic Advisers, the necessity for balance-of-payments equilibrium "has given price stability new and compelling importance as a requirement of economic policy for growth and recovery." Any other course would lead to a weakening of confidence in the dollar and a further seepage in our gold stocks.

One step which might be considered to help stem the outflow of gold would be for the United States to terminate its guarantee to buy gold from foreigners at \$35 per ounce or at any other predetermined price. At the same time, we believe that the United States must avoid devaluation by continuing to sell gold to foreigners at \$35 an ounce.

The guarantee to buy gold at a fixed price encourages speculation in gold against the dollar. The belief that the United States, facing balance-of-payments difficulties, may devalue the dollar in terms of gold, leads speculators to sell dollars for gold in the free gold markets overseas. They hold the gold in the hope of selling it to the U.S. Treasury after devaluation, thus reaping a large profit should devaluation occur. If the dollar is not devalued, their loss is negligible, since almost all risk has been removed by the U.S. guarantee to buy the gold at \$35 an ounce. Eliminating this guarantee to buy gold at a fixed price would dampen speculative fevers by introducing a new element of heavy risk in speculative operations.

There is considerable reason to feel that some of the U.S. gold loss in recent years has been to replace gold that the Bank of England has been paying out to speculators for the purposes outlined. We think termination of the guarantee to buy at a fixed price would be likely to sharply reduce such speculation and, at the same time, stimulate a return of sizable amounts of gold to the United States.

Equilibrium in our balance of international payments is not only important for the reasons already mentioned. We believe that stable long-term growth in this country will be impossible to achieve without our first having restored reasonable balance in our international payments. Without it, our freedom of action in adopting appropriate domestic policies is narrowed. We lament this fact, as does the majority, and believe that the answer lies in correcting the balance-of-payments problem which causes it.

As we have tried to make clear, however, this does not mean that a solution to the balance-of-payments problem precludes efforts to improve employment and spur domestic economic growth.

UNEMPLOYMENT PROBLEM

The unemployment problem is particularly acute. Throughout 1961, unemployment averaged 6.9 percent, or 1.6 percent higher than the 1960 average. Furthermore, recovery was not accompanied by a significant reduction in the unemployment rate. Walter Reuther

pointed out in his testimony what he called a "shocker." Nine months after the bottom of the current recession, he said, unemployed had been reduced only 7.3 percent, contrasted to 30.6 percent after the 1948-49 recession, 26.1 percent after the 1953-55 recession, and 20 percent after the 1957-58 recession.

The dimensions of the problem are further underscored by the fact that while output was increasing about as fast as during previous recoveries, the gain in nonfarm jobs 11 months after the cyclical trough has been sharply reduced. Labor Department figures⁴ show that the increase in nonfarm jobs during this period following the recent recession to be 949,000 compared to 3.4 million in the 1948-50 recovery, 2.1 million in 1953-55, and 1.9 million in 1957-59. To make matters worse, a noneconomic factor—the callup of nearly 300,000 persons into the Armed Forces—accounted for a large part of the relatively modest decline in unemployment during 1961. Furthermore, of the employment gain, 250,000 new jobs were accounted for by State and municipal employment and 80,000 by an increase in Federal civilian employment. Thus, only one-third of the overall increase was provided by the private sector. The rest was accounted for by Government employment and by the fact that people moved into jobs vacated by those called into service. And as we have already mentioned, the situation may actually be even worse than this because of the lag in labor force growth.

We believe that the rate of unemployment must be sharply cut. But our attack on the problem can only bear results if we fully understand the nature of the problem facing us.

The majority takes the view that the high levels of unemployment result from a lag in aggregate demand. The way to correct the situation, they say, is to stimulate both public and private demand. This position is stoutly maintained even though the majority acknowledges that the "rapid recovery" improved the employment picture only "to some extent."

The majority dismisses the possibility that structural changes caused by automation and technology is a major cause of high unemployment. The Subcommittee on Economic Statistics, they say, "found little evidence to support the structural-transformation explanation." And yet, curiously, the majority goes on to suggest that unemployment could be reduced by "a substantial increase in public and private efforts * * * to reduce structural and frictional unemployment," a position with which we agree.

Taking the majority's own figures, we submit that with 7 percent of the labor force totally or partially unemployed during a period of brisk recovery, there is obviously a large hard core of unemployment which is not readily affected by increasing demand.

Chairman Martin of the Federal Reserve Board recognized the seriousness of the structural employment problem in his testimony and said it was "not readily responsive to general fiscal and monetary measures." Walter Reuther, too, told the committee that from 1953-61 the decline in the number of production workers offset by the gain in white-collar and technical employees resulted in a net reduction of 6 percent in manufacturing workers. Yet during this same period,

⁴ We wish to caution that the administration's use of nonfarm employment figures distracts our attention from the overall employment situation. We are concerned with what is happening in the economy as a whole. The addition of farm employment figures—where jobs are being lost—would make the employment picture less favorable.

he pointed out that 24 percent more goods were being turned out. Reuther warned that, "the technological revolution has just started."

It appears that, contrary to the belief of the majority, fuller utilization of industrial capacity no longer guarantees a rising number of jobs. Fewer men can now produce more goods. If this is true, as seems likely, "full employment" is reached at a higher level of unemployment. Government spending policies to expand demand, therefore, may not serve to increase employment but instead may cause inflation. The inflationary impact of such policies not only hurts the individual citizen but also has an adverse effect on this country's balance of payments by cutting down exports which in turn reduces employment opportunities. And yet it is the prescription which the majority offers.

Certainly, some part of those unemployed at any one time, and particularly during periods of high unemployment, could be restored to work by a sharp increase in demand. But to carry this policy too far will cause rising prices without getting most of the hard-core unemployed back to work. Job opportunities do exist in many lines of work and in many areas of the country. These jobs must be identified and filled. The blunderbuss approach of increasing aggregate demand will not do.

We recognize as one possible solution to the structural unemployment problem the vital role of worker retraining and education as well as the importance of encouraging and assisting maximum worker mobility. We strongly support the approach of the manpower training and development bill, which was approved by Congress with bipartisan support. We also support the proposed strengthening of the U.S. Employment Service to help match jobs and workers.

In addition, we would like to see a greater effort made by management and labor, singly and through labor-management conferences, to develop programs to attack structural unemployment. Thought should be given to what further Federal encouragement and assistance might be necessary and appropriate to accomplish this objective.

We think the Youth Employment Opportunities bill merits further study. The public service and the on-the-job training provisions might help ease the problem of unemployment among young people, particularly where the cause is economic and not motivational, as is so often the case. In any event, it is clear that information is lacking in this area and that before a program is initiated a thorough study of the problem is called for. But we think that putting young people on the Federal payroll and assigning them to make-work projects, as is envisioned by the Youth Conservation Corps provision of the bill, would fail to meet their real needs.⁵ Young people should be encouraged and assisted in developing the skills in demand by employers. The other provisions of the bill would help do this. We must not fail to recognize, however, that in the long run this is a State and local problem which requires adaptation of educational programs to meet the needs of the school population. Furthermore, every effort must be made to encourage young people to remain in school.

While from 1950-60 public and private school construction expenditures increased 2½ times, we favor more investment—both by public

⁵ Senator Javits reserves his views on the Youth Conservation Corps—which he has heretofore opposed under present conditions—as the issue will be pending before the Committee on Labor and Public Welfare of which he is a member.

and private bodies—in the education of our young people. The quality of our educational plant must be expanded and improved through stepped-up school construction. Our teachers also should get a better break through a general increase in teachers' salaries.

PROPOSED SOLUTIONS

All of these problems—balance of payments, unemployment, domestic growth—would yield to a substantial increase in productivity in our industrial plant, provided prices held firm. Even greater benefits would result if prices were reduced.

As Dr. Raymond J. Saulnier, Chairman of President Eisenhower's Council of Economic Advisers, told the committee, what we need in the present context "is not merely a stability of price levels * * *" but "a significant reduction in prices." Chairman Martin told the committee that "much of our postwar economic trouble has been brought about by pricing consumers out of the market instead of into it." The consumer has been the forgotten man. It is time the consumer got a better break.

Rising productivity can result in part from fuller utilization of existing industrial capacity, technological development, managerial efficiencies and from a number of other causes. However, rising productivity primarily depends upon a higher level of domestic investment in new plant and equipment. The effects of investment spread throughout the economy and create new jobs.

The considerations that determine new investment are highly complex. Generally, it is correct to say that it pays to invest in new equipment when the annual return from investment is greater than the annual cost. The administration has proposed an 8-percent tax credit for new investment and a change in depreciation schedules as a means of reducing the cost of investment and thus increasing the incentive for new investment.

We oppose the tax credit proposal as an uneconomic and costly giveaway which would favor the large taxpayer and penalize the small.⁶ The proposal, which would cost the Treasury about \$1.8 billion in revenue, would produce inequity among various classes of taxpayers. As an example, those taxpayers who have expanded and modernized without having to rely upon any tax inducement would be put at a competitive disadvantage.

The proposal also gives special and unwarranted preference to workers and investors in construction and equipment manufacturing as opposed to those laboring in services, which make relatively less use of depreciable plant.

We favor more liberal depreciation allowances as a fair and effective way of removing impediments to modernization of industry and creating new job opportunities. In fact, we think that the administration was neglectful in not liberalizing allowances early enough to remove this impediment to recovery from the 1960-61 recession. In a world in which technical change is very rapid, existing depreciation schedules must be changed to permit investment costs to be written off over the useful life of the equipment rather than over the period of its physical life.

⁶ Senator Javits, while favoring liberalized depreciation allowance schedules, reserves his view on the 8-percent tax credit as at least a partial incentive to modernization of machinery and equipment.

Stepped-up investment resulting in increased productivity with lower prices would have an especially healthy effect on our balance-of-payments position. Lower prices would tend to increase exports relative to imports by making our export goods more competitive in world markets.

Lower prices do not mean that consumers would be the only ones to benefit from greater productivity. Workers and management should also share in the benefits in the form of higher wages and profits. A problem arises, of course, in trying to spell out precisely how the rewards of increased productivity should be allocated among workers, producers, and consumers. Some increase in wages would spur demand; higher profit margins would encourage job-creating investment; and reduced prices would stimulate consumer expenditures. We agree with Dr. Saulnier that wages—the major component of business costs—must be kept well within the limits of productivity increases in order to leave room for significant price decreases.

We believe that an increase in domestic economic activity arising from private investment decisions is preferable to direct efforts by the Federal Government to expand demand through spending which leads to budget deficits in a period of recovery. Such a policy may weaken international confidence in the dollar. It may lead to inflation at home. Erratic and uncertain in its effects and often done on the basis of noneconomic considerations, deficit spending designed to increase aggregate demand does not guarantee a high and stable level of domestic economic activity. Indeed, it may militate against it. As Dr. Henry C. Wallich, a member of President Eisenhower's Council of Economic Advisers, said in testimony before the committee—

I am disenchanted with what we got by increasing Federal expenditures by \$11 billion in the administrative budget over 2 years. That ought to have given us a lot of growth, but it does not seem to have done a great deal for us.

OTHER ADMINISTRATION PROPOSALS

The administration has recommended three programs which it claims would strengthen the hand of the Federal Government in combating cyclical recessions and inflationary tendencies in the economy.

In general, we favor the strengthening of the unemployment insurance system.

We cannot, however, support the proposals to give the President standby authority to reduce taxes and to spend up to \$2 billion for public works projects. Both plans give the President dangerously unprecedented powers at the expense of the traditional powers of Congress to lay taxes and to appropriate.

It is encouraging to note that the majority report, while endorsing the principle of limited discretionary tax flexibility, expresses grave reservations about giving this power to the President. The majority prefers a method to enable Congress to act quickly in changing tax rates in response to changing economic conditions. While we caution against the desirability of speed at all costs in altering tax rates, we think the idea merits further consideration by the House Ways and Means Committee and the Senate Finance Committee. Because

our experience with the use of tax reductions as an antirecession tool is extremely limited, however, we should, as Dr. Saulnier suggested in his testimony, guard against legislation which would invite situations in which taxes might be reduced "when it was not really timely or beneficial to do so."

It should also be pointed out that the proposal raises grave constitutional issues. The Constitution specifically gives to Congress the right to levy taxes, which we believe embraces the power to fix rates. If the President is given the power to change tax rates, we believe that the law would be in direct violation of the Constitution.⁷

The propensity of this administration to spend—often regardless of the need—cautions us against the proposal to permit the President to commit up to \$2 billion on public works projects. Not only is the proposal objectionable because it bypasses the appropriations process, but the guidelines under which the President would operate are altogether too loose. We think the authority asked for is not needed. Under present arrangements there is already considerable leeway for increasing construction expenditures. We also think the proposal would prove ineffective in combating recessions because such expenditures generally do not become effective until recovery is well underway. As Dr. Wallich told the committee, "public works come too late to help." We believe that a continuing program of capital improvements, wisely selected for their economic merit rather than for their political effect, is of greater benefit to our economy over the long run rather than the off-again, on-again approach favored by the administration.⁸

We also oppose the President's recommendation that the Federal Reserve Act be amended to make the term of the Chairman of the Board of Governors of the Federal Reserve System coincide with the 4-year term of the President. We agree with Dr. Saulnier's opinion that our central banking system should be in the hands of men who are both technically competent and free from political considerations. It would be exceedingly difficult to maintain nonpolitical control of our central banking system if the chairmanship of the Board were to change with every change in the Presidency. The President is pledged to give effect to a political program. He would be likely to reflect this pledge in his choice of Chairman.

CONCLUSION

The majority and the administration basically misunderstand the nature of our dynamic and growing economy. They believe that U.S. Government spending will lead to prosperity and full employment. This policy would take us down the well-worn path to inflation. It would neither solve our basic structural unemployment—which is the primary symptom of our dynamic and growing economy—nor would it solve our serious balance of payments problem. Indeed, it would make them worse.

This administration has failed to attack our unemployment and balance-of-payments problems with sufficient vigor or urgency. In

⁷ Senator Javits reserves his view on the constitutionality of this proposal pending further study.

⁸ See "Individual Views of Senator Javits" on this proposal.

fact, instead of improving, recent signs suggest that these problems may be deepening. Significant improvement cannot be expected until the administration discards its obsolescent economic theories in favor of the ideas more appropriate to today's technological revolution.

We welcome this technological revolution. In the long run it will lead to a sharp expansion in job opportunities as well as to a significant improvement in this country's international competitive position. In the meantime, we must ease and facilitate the adjustments which technological change causes by promoting worker retraining and mobility, by improving the unemployment compensation system and by making greater efforts to match unfilled jobs with the men and women seeking work.⁹

Every equitable effort must be made to stimulate job-creating investment. This can lead to greater productivity and, with restraint by Government, labor and business, to lower prices which would spur sales at home and better our competitive position in world markets.

Those who have little faith in the inherent dynamism and resiliency of our free enterprise economy have been proved wrong in the past. We think they are wrong again and that history will bear us out.

HOUSE OF REPRESENTATIVES

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

SENATE

PRESCOTT BUSH.
JOHN MARSHALL BUTLER.
JACOB K. JAVITS.

⁹ "Individual Views of Senator Javits" emphasizes his belief that foreign economic development is a major additional factor.

APPENDIX A

A STATIC LABOR FORCE

If the Economic Report had been wholly objective about economic developments in 1961, more concern would certainly have been shown over the trend of the labor force, that is the number of persons able and seeking work or self employment. This has a tremendous impact upon any conclusions about the degree of recovery. It is basic to the validity of discussions about full production and projections of productive potential showing an alleged gap, which is a cornerstone to the Council's analysis in last year's report and again this year.

In its report the Council notes, and in this they would find substantial agreement among population experts, that:

"The population upsurge which began in the 1940's together with the expected decline in death rates, will give us a rapid increase in the population of working age. Adult women are expected to enter the labor force in increasing proportions; but because a larger fraction of our youth will remain in school and because the trend toward earlier retirement among male workers is likely to continue, overall labor force participation rates are expected to remain steady. The resultant of these factors should be a labor force in 1970 of a little more than 87 million, an annual rate of increase of 1.8 percent in this decade, compared with the distinctly lower rate of 1.3 percent from 1947 to 1960" (p. 116).

Quite in keeping with the Council's projection of upward of a million new entrants each year of the decade, the Commissioner of Labor Statistics in February 1961 estimated, before this committee, that on the basis of population changes and past trends 1 million new persons would enter the labor force of those willing and able to work. What actually happened? The total labor force in December 1960 was 73,079,000; in December 1961 it was 73,372,000, an increase of 293,000. The lagging trend continues this year. In January 1961 the total, according to Economic Indicators, was 72,361,000; in January 1962 it was 72,564,000, an increase of only 203,000 or three-tenths of 1 percent instead of 1.8 percent.

It is not a very happy answer, but it is easy to account for the numbers represented by these new entrants. Their number joined the Armed Forces. By something more than a striking coincidence the number of 293,000 who joined the total work force is close to the 283,000 who joined the military. The increase in military was, moreover, largely in October and November, precisely when the reported rate of civilian unemployment cited with pride by the President dropped from 6.8 to 6.1 percent.

With 300,000 of the expected 1 million new jobseekers accounted for by the increase in the Armed Forces, what about the civilian work force and the other 700,000? For all practical purposes none of these expected new workers actually showed up at the employment offices

of the country, in business for themselves, or on the farms. The nominal increase of 10,000 added to the labor force (Economic Report, p. 230, December 31, 1960, 70,549,000; December 31, 1961, 70,559,000) must, under the circumstances, be brushed aside as negligible, perhaps the result of statistical rounding or sampling. In any case, it is a far cry from the near 1 million new civilian entrants of the previous year and the projected full 1 million for 1961. In January 1962 the seasonally adjusted civilian work force was actually 120,000 less than the preceding January. Their withdrawal helped the unemployment rate to fall to 5.8 percent from 6.1 percent. Certainly such a trend in the number working and seeking work needs explanation.

The Council of Economic Advisers notes (p. 50) that "Participation in the labor force is encouraged by greater availability of job opportunities." A year ago, commenting that the actual additions in 1958-60 of some three quarters of a million each year had been below the expectations of population and census experts, the Council explained that "This shortfall is attributable to the disappointing performance of the economy; many people have stayed out of the labor market although they would take employment if jobs were available" (hearings, p. 373).

Before the administration takes too much credit for its program in bringing about the reported reduction in unemployment (accounted for by a transfer to the Armed Forces) let it explain why 700,000 expected new workers who were not absorbed by the Armed Forces were not employed or even counted as unemployed. If these working-age persons, who the Council has suggested may have felt it useless to apply for jobs, had been counted in the statistics as unemployed the alleged gains of 1961 are wiped out and the rate of civilian unemployment today right back unchanged at the 6.8-6.9 percent level of a year ago.

Enough for the success of the "placebo program." It is not necessary to do more than raise the question: What happens to the Council's analysis of potential national product and the narrowing last year of the gap between potential and actual production when the elements of the potential itself are not realized? The projected potential rests on the expected rapid increase in population of working age and the Council's assumption that, with other factors more or less offsetting each other—"overall labor force participation rates are expected to remain steady" (p. 116).

INDIVIDUAL VIEWS OF SENATOR JAVITS

While I join in the minority views because I believe that, in the preponderance of the points made, they state the situation more accurately and make the more pertinent recommendations, I find it necessary to file my own individual views because of the reservations which I have as to both majority and minority views and because of certain practical recommendations which I wish to put forward.

It is my feeling that the majority's report is directed toward the major premise that increasing Government spending will get us further toward full employment and prosperity. Therefore, I feel it essential to publish these additional views because I believe the major key to prosperity and solution of our problem of a chronic and unacceptable rate of unemployment to be in rapid growth of productivity, increased automation, expanded international trade, and more effective participation by the private economy in international economic development assistance. Such developments must be based on a tax structure providing incentives for industrial modernization, and on a solid underpinning of social security, minimum wage, unemployment compensation, adjustment assistance—including retraining of workers—and just labor-management relations.

Before detailing my underlying reasoning and suggesting specific approaches, I should like to express my agreement with certain points in the majority report.

(1) With respect to the international balance of payments, the need to press for—

(a) unilateral reductions of import restrictions by the European Economic Community in order to offset the discriminations growing out of its common external tariff;

(b) increased Western European contributions to the economic development of the newly developing free world areas;

(c) increased contributions by NATO members to meet the costs of our common defense establishment; and

(d) approval by the Congress of U.S. participation in the 10-nation agreement to supplement the capabilities of the International Monetary Fund in supporting international reserve currencies, like the dollar and the pound sterling.

(2) The freeing of silver from Government controls and supports, and its demonitization except for coins.

(3) Amendment of the Welfare and Pension Plans Disclosure Act to strengthen its enforcement provisions.

(4) An effective adjustment assistance program in connection with legislation for trade expansion—excluding, however, Federal purchase of businesses or the extension of subsidies to private enterprise.

However, standby authority for the President to make tax cuts as recommended by the majority is an open invitation to politically motivated abuse of the revenue raising power. So, too, open-end authority to spend \$2 billion on recession-countering public works creates the same climate. On the other hand, the idea of speeding

congressional action on temporary tax revisions and on public works expenditures to counter recessions by establishing certain criteria and "ground rules" for such action so that they may be triggered quickly by Congress merits thorough consideration.

There are factors in foreign trade policy which are not dealt with in the majority's report but which are of importance to the discussion of U.S. economic policy. Presidential responsibility over foreign relations and congressional responsibility in economic policy and for the general welfare must be exercised in full partnership. I propose a means for achieving such a partnership, through provisions for congressional veto and the laying down of specific congressional policy guides to Presidential authority in the negotiation of trade agreements, in the National Trade Policy Act of 1962 (S. 2840) which I have introduced as an alternative to the administration's trade program. Foreign trade is so vital to the Nation's economic welfare and world peace leadership as to demand such a partnership.

Here, too, we must use our capabilities and fill our needs more carefully, more selectively than the President's program appears to do. We cannot exclude or include nations and areas arbitrarily when the Congress extends authority to the President to make trade agreements. Why should Canada, Australia, and other nations which are not members of the European Economic Community but have wage and productivity rates equal to the EEC and often provide greater individual markets for our exports than even the EEC, be excluded from negotiations for 100 percent across-the-board mutual reductions in tariffs? Why must our ability to negotiate for such reductions depend on the decision of the United Kingdom to enter the EEC? Why must it be tied to past levels of commodity-by-commodity trade which are certain to undergo sweeping changes in the future—changes based on worldwide productivity factors?

The key issue insufficiently noted in the majority report is the need for an acceleration of productivity growth in the United States. I suggest that productivity is the key to competition with foreign wage rates, to meeting the problems of foreign trade and to dealing with a serious and an almost accepted, but a still unacceptable, rate of unemployment.

We cannot overcome persistent economic problems by measures designed for temporary situations. When the well is leaking, pump priming only wastes good water.

The problem of persistent unemployment which even now, during a period of economic recovery, finds 4.7 million (unadjusted figure) jobless—more than half a million for more than 6 months—and 2.1 million only partially employed must be solved on high priority. The selective application of stimulants by the Federal Government is indicated: An improved Federal standard of unemployment compensation benefits; tax incentives for plant and business modernization; the concentration of the civilian sector of public expenditures on research, education, and capital investment in basic national resources; greatly expanded foreign trade; and full participation in the economic upsurge of the industrialized free world nations through accelerated productivity growth.

The shotgun approach advocated by the majority is intended to increase consumer demand. The question is: Demand for what?—for higher priced, lower quality goods?—for items which have little

if any relation to our growth as a nation and to our indispensable economic and social ties with the rest of the free world?

Increased productivity to meet greater demand at declining real price levels will respond to a healthy demand. The majority report seems to forget the basic economic principle that price determines cost. There is no way of getting around this principle in a system which utilizes the profit motive as its driving force. Its consequences are reinforced by the public and private restraints on absolutely free market forces which exist in our economic system.

The majority contends that excess aggregate demand has not been responsible for inflationary pressures since 1952. (The report quotes the testimony of Dr. Gardiner Means to this effect, in a context with which I do not take issue.) The question, however, is: Demand at what price?

Obviously, there has been a limited demand for products at a high price; otherwise goods would not have been sold at that price or produced at a cost determined by that price. Price includes business profits and labor and dividend costs, as well as other costs. Consciously or not, both management and labor have tended to cater to demand at a high price—reflected in profit and wage costs—often at the expense of larger output and increased employment.

The majority report advocates measures—tax cuts and deficit spending—to increase demand at the high price level now prevailing. The eventual result of such measures is to increase demand somewhat—but at a still higher price level. The consequences of still higher prices (costs) to our international trade and payments position must be adverse. I do not see how the majority can reconcile its advocacy of trade expansion with its recommendations leading to inflation.

It appears essential to me that we do not permit artificial and increasingly isolated domestic price levels to become the determinants of our costs. Both the short- and the long-range solutions to our persistent (and unacceptable) unemployment rate and balance-of-payments problems reside to a large extent in a major increase of our exports. Every dollar or increase in exports represents a dollar added to the domestic consumer's income. Since, however, we can only produce and export at the prices meeting world market demand, this dollar earned by the American consumer will also buy more than a dollar gratuitously given to the consumer through broad tax cuts or deficit spending.

The problem of high prices must be met by a reorientation of U.S. management and labor policies, now directed to the maximization of profits and wages by meeting limited demand at high prices, to the maximization of profits and wages by meeting increased demand at lower prices. The key to such a solution resides in accelerated productivity growth. And the achievement of accelerated productivity growth requires restoration of a balance in the economic system—a balance which was lost during the decade following World War II, when the United States stood isolated from the rest of the world in absolute economic superiority.

To this end I advocate the following measures which are opposed, underemphasized, or entirely ignored in the majority report:

- (1) Tax incentives which will make it more profitable for business to modernize and thereby to be able to sell more at lower prices, rather than to limit sales at a high price.

(2) Additional tax incentives for businesses in the export field where world price competition will do what I advocate in (1) above: make it more profitable to meet increased demand at lower prices than to meet limited demand at high prices

(3) Immediate enactment of permanent improved Federal standards of unemployment compensation to support and help those workers who, through lack of training and other factors, are at present at a disadvantage in the current stage of our economic development, and to strengthen their low level of demand until other selective measures give the needed impetus to U.S. economic growth.

(4) Retraining programs to give the U.S. worker the opportunity to acquire the skills required for servicing the machinery and transacting the business of a productivity-oriented economy.

(5) Elimination of discriminatory employment practices based on outworn prejudices regarding race, faith, sex and age—practices which in the private and public sectors of our economy rob us of urgently needed skills, and are contrary to the Constitution and to our sense of justice and fair play.

(6) Establishment of a Peace Production Board to indicate priorities required to accelerate national productivity and to encourage the formation of plant, community, and industrywide labor-management-public committees designed to work in mutual self-interest for increased productivity. (Establishment of such a Board would represent a recognition by the President and the Congress of the common responsibility for our Nation's welfare of both management and labor.)

(7) Greatly increased public and private investment in education at all levels through school construction and the improvement of teachers' salaries. (The majority recommends Federal aid to education.)

(8) Increased public investment and greater stimulants for private participation in research of all kinds, as well as in the preservation and development of national resources—both natural and man made.

(9) An end to agricultural policies which by bureaucratic production controls or high fixed farm price supports make a mockery of American productivity gains in agriculture, hamper our ability to feed hungry multitudes throughout the world, and continue to cost our Treasury funds otherwise urgently required to meet national needs.

(10) Effective antitrust law administration to deal with the special problems of small business, expanded exports and participation by the private economy in international economic development assistance.

In conclusion, I should like to touch on two points directly related to the problem of our international balance of payments.

The majority report appears to endorse the President's proposals for the taxation of oversea investment in productive resources, which would result in placing U.S. private foreign investment at a disadvantage in its competition with investors from other countries. Once more, a shotgun approach is proposed to meet a situation requiring specifically directed remedies—measures designed to close tax loopholes which are now diverting U.S. investment into uneconomic

channels. Measures of this nature have been drafted by the House Committee on Ways and Means and they require careful consideration to determine whether they would accomplish what they are allegedly designed to do. The President's original proposals, however, would discourage economically sound investment—investment which is essential to the expansion of U.S. export markets and which assures us of future net gains in dollar income and economic influence in the world. It is contradictory to endorse policies for trade expansion while at the same time advocating tax policies tending to the strangulation of the channels of trade and the sapping of our bases of foreign economic power. Nor does the evidence before the committee bear out any dire predictions that oversea operations of U.S. business deprive U.S. workers of their jobs or our Government of revenue. On the contrary, they appear to add to both jobs and Government revenue at home by getting us income from exports from which we would be excluded by foreign competition, if we did not produce abroad, and also by the sale of machines, parts and shipment facilities which are required by such operations.

I have indicated my support of certain of the majority's recommendations relating to the balance of payments, but I have some fundamental doubts on the ability of the present system of international exchange based on the gold holdings of nations which supply reserve currencies, to support the rapidly accelerating velocity and mounting volume of international transactions. Proposals to meet this problem, such as that of Professor Triffin of Yale for an international pooling of gold reserves, and those of Dr. Edward Bernstein, Lord Stamp, and other international economists deserve our full attention.

In summary, our economic way in the world is forward and outward. With 50 percent of the free world's industrial production in our hands, and this world's demand for a well-being which modern technology is capable of supplying with freedom and justice, there is no other course which leads to peace than a full commitment by our Nation to its undeniable leadership of the free world.

ADDITIONAL VIEWS OF REPRESENTATIVE THOMAS B. CURTIS

The expression of these additional views in no way diminishes my full support of the minority statement. I only wish to elaborate on a point which I think merits further consideration.

Is the United States drifting toward a situation in which the Federal Government in effect "sits in" as a third party at major wage bargaining tables and price-setting conferences? More than one witness at the committee hearings said he believed that we were. At least one distinguished economist urged that we were not moving in that direction fast enough. If we are, indeed, drifting in that direction, it is a matter of prime importance, since it threatens a basic revolution in the philosophy of our traditional economic system.

Our economic system is designed to economize our natural and human resources and to channel and allocate them among alternative uses through the impersonal operation of the market system. We have placed chief reliance upon the forces of (1) free independent initiative and choice, (2) profit motivation, and (3) competition between independent sellers, seeking the favor and purchases of independent buyers, trying to get the "most-of-the-mostest" for their money. Through these forces our system is designed to maximize employment, production, and purchasing power and achieve the optimum use of resources at the level and in the directions we desire.

One evidence, if any is needed, of increasing Government intrusion into the economizing process is the new language which has crept into high economic discussion and the way in which the concepts that go with the expression are accepted as "givens" no longer needing critical examination. We are, for example, quite accustomed to discussions and recommendations about what is, or would be, appropriate monetary policy, debt management policy, fiscal policy, trade policy. But, note that these things—monetary, debt, and fiscal management, together with foreign relations, of which trade is a part—are inherent and necessary functions of Government. The Employment Act of 1946 simply declares that in administering these inevitable and sovereign governmental powers, consideration will be given expressly to their coordination and utilization in a manner calculated to foster stability and economic growth.

In the several economic reports of this year, we run into something more—not entirely new, but apparently becoming more and more embedded—that goes a step beyond these inevitable governmental operations. In the majority report of this committee, we find, for example, an entire chapter devoted to "policies" involving wage rates and prices, as if having a wage policy (beyond that dealing with its own employees) or a price policy was a normal and expected function of government. The President, as have some of his predecessors, exhorts business and labor to add something of a "public spirit" or "national interest" to their expected social function of economizing, and directing the limited

resources among the alternative uses in accordance with market signals.

The Council of Economic Advisers, as its contribution to the drift, undertakes to set up advisory "guideposts" so that businessmen and labor negotiators and price setters need no longer depend on the market directives and signals which are the cornerstone of the free-enterprise system.

These things may seem harmless and incidental but their implications are far more serious. They are illustrative of how government expands its role, and reliance on the impersonal market direction of the economy pared and eroded away.

No one will deny the overriding and paramount national interest when it is at stake, but serious thought needs to be given to the question of how that national interest is best served. Is it best served by admonishing leaders of industry and labor that they must be "responsible"? Appeals to private responsibility and conscience as a way of influencing or determining economic decisions, no matter how desirable the ends may seem, amounts to an insidious step away from the economizing objectives and virtues of the market enterprise system and its associated free political system.

The Council of Economic Advisers proposes as a general guide for noninflationary wage behavior that the rate of increase in wage rates in each industry be equal to the trend rate of productivity increase in the economy as a whole. An appropriately similar guide calls for price reductions if the industry rate of productivity exceeds the overall rate. Apart from the issue raised above about the propriety of a Government agency setting up so-called guide lines, it is reassuring to find the Council's own reliance on the market system in later paragraphs. In explanation of the proposed guideposts it says that an industry which would otherwise be unable to attract sufficient labor would be justified in a relatively higher wage rate increase, and that wage rate increases in an industry which cannot provide jobs for its entire labor force should fall short of the general guide. In spite of exhortation and guideposts, it is thus reassuring in the end to find that the Council supports the principal that supply and demand in the free markets should determine wage rates.

The risk is that we will drift or be led into a new pattern, downgrading collective bargaining and the free market system. The proper role of Government under our political and economic system should be to create and maintain the market machinery in good working order—not undertake to substitute for it, or confuse the issues of its imperfections by admonitions that it do better.

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN 1961 AND PLANS FOR THE COMING 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 1961, studies were conducted by the full committee and by six subcommittees. These 1961 studies and committee plans for 1962 are outlined below:

STUDIES BY THE FULL COMMITTEE

Report on the 1961 Economic Report of the President

During February, March, and April, the committee held hearings on the 1961 Economic Report of the President and the economic situation and outlook. A report was prepared and transmitted to the Congress on May 2. Included in this report was a summary of the committee and subcommittee activities for 1960 and a list of studies to be undertaken by subcommittees and by the committee staff in 1961.

Review of annual report of the Federal Reserve System

The committee held hearings during June 1961 to review actions of the Federal Reserve Board and the Open Market Committee, as set out in the annual report of the Board of Governors for the calendar year 1960. This review was concerned with policies and actions affecting levels of employment, production, and purchasing power. A report is being drafted and is expected to be ready for review during March.

Review of report of the Commission on Money and Credit

Hearings were held by the full committee August 14-18 to consider those portions of the report of the Commission on Money and Credit that deal with the questions of coordination and utilization of the Federal Government's plans, functions, and resources toward achievement of the objectives of the Employment Act. A report is in preparation for submission later in 1962.

Variability of private investment in plant and equipment

This study, conducted as part of a series of studies dealing with the volatile elements of the economy, was begun during 1961 with the preparation and release of a series of papers by academic and business experts. Papers completed and released are part I entitled "Investment and Its Financing," and part II, which deals with "Some Elements Shaping Investment Decisions."

Arrangements have been made for studies of other aspects of the investment problem to be completed during 1962. It is also anticipated that with the completion of these study materials, hearings will be held, to which business, labor, and academic experts will be invited.

Inventory movements, accumulation, and liquidation

As a second part of the committee's series of studies of the volatile elements in the economy, three volumes of staff papers were prepared covering "Postwar Fluctuations in Business Inventories" (pt. I); "Causative Factors in Movements of Business Inventories" (pt. II); "Inventory Fluctuations and Economic Instability" (pt. III). Two additional staff studies are in preparation for early submission and release. It is also expected that hearings will be held at which the authors of these studies will discuss their findings.

SUBCOMMITTEE ON ECONOMIC STATISTICS

Government price statistics

The subcommittee held a hearing May 1-5 to examine the report on Government price statistics which was prepared for the Bureau of the Budget by the National Bureau of Economic Research. A report on these hearings and the committee's findings in regard to the National Bureau Review Committee's recommendations was transmitted to the full committee and released on July 21.

Study of unemployment

As part of this study, which examines the cyclical, secular, and structural characteristics of unemployment, staff papers were prepared on the subjects of "Higher Unemployment Rates, 1957-60: Structural Transformation or Inadequate Demand" and "Unemployment: Terminology, Measurement, and Analysis." These papers, which were submitted in November, were reviewed in hearings December 18-20 and a report by the subcommittee prepared and released on February 2, 1962.

The subcommittee expects to continue its study with additional hearings after the President's Committee To Appraise Employment and Unemployment Statistics submits its report later this year.

Productivity, prices, and incomes

The subcommittee expects to have made, during 1962, an updating of the Joint Economic Committee's 1957 study of this subject. It is planned that this updating may include preparation of unit cost indexes, unit value added indexes, contributions to price change, and related materials.

The Federal budget as an economic document

An extensive staff study on "The Federal Budget as an Economic Document" was prepared for the subcommittee and released early in January 1962. The study provides information on the steps in budgetary decisionmaking and criteria for constructing a budgetary document for economic analysis and describes the character of present budget data, with some recommendations for changes in the budget document. It is expected that further review of the problem will be carried out during 1962, based on the completed staff study.

Other subcommittee studies

It has been the practice of the committee to have the staff, every other year, under the direction of the Subcommittee on Economic Statistics, investigate suggestions for revisions in Economic Indicators, and to propose incorporation of such additions and revisions as seem desirable. At the time these revisions are made, the staff

also revises and brings up to date the "Supplement to Economic Indicators, Historical and Descriptive Background," with the assistance of the Bureau of the Budget. The subcommittee is asked to carry out these activities as part of its program for 1962.

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 on Foreign Economic Policy made an extensive review of all major aspects of foreign economic policy problems; and for this purpose had a number of study papers prepared by experts in the field, including a joint paper by the Honorable Christian A. Herter and the Honorable William L. Clayton. These papers were released prior to hearings, and hearings were held December 4-14. The subcommittee findings, based on the studies and hearings, were released January 17 in a report entitled "Foreign Economic Policy for the 1960's."

The subcommittee will continue to follow the activities in this field during 1962.

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 held hearings May 16 and June 19-21 on international payments imbalances and need for strengthening international financial arrangements. A subcommittee report with the same title was issued on August 23.

The balance of international trade and payments presents a relatively new and unfamiliar experience for policymakers, businessmen, labor leaders, editors, and the man in the street. Accordingly, the subcommittee proposes to undertake a broadly based study of the conditions past, present, and prospective, which have raised the balance-of-payments problem to its present position of concern. Such a study, which would deal with the feasibility and contributions of alternative measures to be taken, would in no way minimize the urgency of the general trade liberalization objectives, but would explain the desirability, possibility, and needs presented by these other, complementary, directions of attack.

Members of the subcommittee 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

Chairman Sparkman and Representative Griffiths from the subcommittee and Representative Curtis from the full committee held on-the-spot discussions in six South American countries with key

government officials, labor and business leaders, and experts from academic life in November 1961. Their findings were issued by the subcommittee in January 1962 in a report on "Economic Policies and Programs in South America."

The subcommittee has under consideration a similar study in other Latin American countries for 1962.

Members of the subcommittee are Senator John Sparkman, chairman; Senator John Marshall Butler; and Representatives Richard Bolling, Hale Boggs, Martha W. Griffiths, and Clarence E. Kilburn.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The subcommittee in carrying out the committee's continued interest in this field held a hearing in June on the progress made by the Department of Defense in reducing the impact of military procurement on the economy.

The subcommittee will continue to follow these developments during 1962.

Members of the subcommittee 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

Preliminary staff work was begun on a study of the effect of private pension systems on employee mobility. The subcommittee staff also explored with labor and management the possibilities for a study of industries likely to adopt new technologies in the near future and to determine the kinds, volumes, and locations of probable labor displacement.

Members of the subcommittee 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.

**PUBLICATIONS OF THE JOINT ECONOMIC COMMITTEE
ISSUED SINCE APRIL 1961**

Full committee:

- Hearings, *Review of Annual Report of the Federal Reserve System for Year 1960*, June 1 and 2, 1961 (sale price 45 cents): August 1961.
- 93 *Lots of Bids Involving Identical Bids Reported to the Department of Justice by the Federal Procurement Agencies in the Years 1955-60* (materials assembled by the Antitrust Division of the Department of Justice and by the Bureau of the Census of the Department of Commerce for the Joint Economic Committee), committee print: September 1961.
- Hearings, *Review of Report of the Commission on Money and Credit*, August 14-18, 1961 (sale price \$1.25): October 1961.
- Inventory Fluctuations and Economic Stabilization, Part I*, Postwar Fluctuations in Business Inventories (Papers prepared for the Joint Economic Committee by experts from government, universities, and research organizations), committee print (sale price 50 cents): December 1961.
- Inventory Fluctuations and Economic Stabilization, Part II*, Causative Factors in Movements of Business Inventories (Papers prepared for the Joint Economic Committee by experts from government, universities, and research organizations), committee print (sale price 55 cents): December 1961.
- † *Inventory Fluctuations and Economic Stabilization, Part III*, Inventory Fluctuations and Economic Stability (Papers prepared for the Joint Economic Committee by experts from government, universities, and research organizations), committee print (sale price 55 cents): December 1961.
- Variability of Private Investment in Plant and Equipment, Part I*, Investment and Its Financing (materials prepared for the Joint Economic Committee by the Department of Commerce), committee print (sale price 25 cents): February 1962.
- Variability of Private Investment in Plant and Equipment, Part II*, Some elements Shaping Investment Decisions (papers prepared for the Joint Economic Committee by academic and business experts), committee print (sale price 20 cents): February 1962.
- Hearings, *January 1962 Economic Report of the President*, January 25, 26, 30, 31, February 1, 2, 5, 6, 7, and 8, 1962 (sale price \$2.25): March 1962.
- Joint Economic Report*, Report of the Joint Economic Committee on the 1962 Economic Report of the President, House Report 1410 (sale price 50 cents): March 1962.
- † *Economic Indicators* (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (sale price 20 cents a copy, \$2.00 a year): Issued monthly.

Subcommittee on Economic Statistics:

Hearings, *Government Price Statistics*, Subcommittee on Economic Statistics, May 1-5, 1961 (sale price 65 cents): July 1961.

Government Price Statistics (Report of the Subcommittee on Economic Statistics), committee print (sale price 10 cents): July 1961.

Unemployment: Terminology, Measurement, and Analysis (Papers prepared by the Bureau of Labor Statistics for the Subcommittee on Economic Statistics), committee print (sale price 35 cents): November 1961.

Higher Unemployment Rates, 1957-60: Structural Transformation of Inadequate Demand (prepared for the Subcommittee on Economic Statistics by the staff), committee print (sale price 25 cents): November 1961.

Hearings, *Employment and Unemployment*, December 18, 19, 20, 1961 (sale price \$1.00): January 1962.

Employment and Unemployment (Report of the Subcommittee on Economic Statistics with Minority Views), committee print (sale price 15 cents): February 1962.

† *The Federal Budget as an Economic Document* (prepared for the Subcommittee on Economic Statistics by the staff), committee print (sale price 50 cents): January 1962.

Subcommittee on Foreign Economic Policy:

A New Look at Foreign Economic Policy: In Light of the Cold War and the Extension of the Common Market in Europe, by Christian A. Herter and William L. Clayton, committee print (sale price 15 cents): October 1961.

† *The Task for 1962: A Free World Community*, by Henry S. Reuss, committee print (sale price 10 cents): November 1961.

A New Look at Trade Policy Toward the Communist Bloc: The Elements of a Common Strategy for the West, by Samuel Pisar, committee print (sale price 30 cents): November 1961.

Economic Policies Toward Less Developed Countries, by Raymond F. Mikesell and Robert Loring Allen, committee print (sale price 30 cents): November 1961.

Japan in United States Foreign Economic Policy, by Warren S. Hunsberger, committee print (sale price 25 cents): November 1961.

Trade Adjustment in Theory and Practice, by Otto R. Reischer, committee print (sale price 30 cents): November 1961.

The European Economic Community and the United States, by Robert R. Bowie and Theodore Geiger, committee print (sale price 25 cents): November 1961.

Food and People, by Ralph McCabe and Louis H. Bean, committee print (sale price 25 cents): November 1961.

United States Commercial Policy: A Program for the 1960's, by Peter B. Kenen, committee print (sale price 25 cents): November 1961.

Trade Restraints in the Western Community: With Tariff Comparisons and Selected Statistical Tables Pertinent to Foreign Economic Policy (prepared by the staff with the assistance of the Tariff Commission and several other Federal Agencies), committee print (sale price 20 cents): December 1961.

The Political Stakes in East-West Trade: A Report on a Fact-finding Trip to the U.S.S.R. and Eastern Europe, by Senator Jacob K. Javits, committee print, February 1962.

Hearings, *Foreign Economic Policy*, December 4-14, 1961 (sale price \$1.50): January 1962.

Foreign Economic Policy for the 1960's (Report of the Subcommittee on Foreign Economic Policy with Minority and other views), committee print (sale price 20 cents): January 1962.

Subcommittee on International Exchange and Payments:

Hearings, *International Payments Imbalances and Need for Strengthening International Financial Arrangements*, May 16, June 19, 20, and 21, 1961, Subcommittee on International Exchange and Payments (sale price \$1.00): August 1961.

†*International Payments Imbalances and Need for Strengthening International Financial Arrangements* (Report of the Subcommittee on International Exchange and Payments), committee print (sale price 15 cents): August 1961.

Subcommittee on Inter-American Economic Relationships:

Economic Policies and Programs in South America (Report from the Subcommittee on Inter-American Economic Relationships), committee print (sale price 35 cents): January 1962.

Subcommittee on Defense Procurement:

Hearings, *Progress Made by the Department of Defense in Reducing the Impact of Military Procurement on the Economy*, June 12, 1961, Subcommittee on Defense Procurement: September 1961.

EARLIER PUBLICATIONS

January 1947 to April 1962

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.
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- †*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.

*Hearings, *Comparison of the United States and Soviet Economies*, hearings before Subcommittee on Economic Statistics, November 13, 16, 17, 18, 19, and 20 (sale price 70 cents): November 1959.

Comparisons of the United States and Soviet Economies (Supplemental Statement and Costs and Benefits to the Soviet Union of its Bloc and Pact System: Comparisons with the Western Alliance System prepared by the Central Intelligence Agency in Cooperation with the Department of State and Department of Defense for the Subcommittee on Economic Statistics for the Joint Economic Committee) committee print (sale price 20 cents): June 1960.

Hearings, *Energy Resources and Technology*, hearings before the Subcommittee on Automation and Energy Resources, October 12, 13, 14, 15, 16 (sale price, \$1.25): November 1959.

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: 1960.

Joint Economic Report (Report of the Joint Economic Committee on the 1960 Report of the President): Senate Report 1152 (sale price 30 cents): February 1960.

*Hearings, January 1960, Economic Report of the President (February 1, 2, 3, 4, 5, and 16, 1960) (sale price \$1.50): March 1960.

†*Background Material on Economic Aspects of Military Procurement and Supply* (Materials prepared for the Subcommittee on Defense Procurement), committee print (sale price \$1): February 1960.

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REPORTS, HEARINGS, AND STUDY PAPERS FROM THE STUDY OF
EMPLOYMENT, GROWTH, AND PRICE LEVELS

**Staff Report on Employment, Growth, and Price Levels* (committee print) (sale price \$1.50): December 1959.

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Hearings

Part 1. *The American Economy: Problems and Prospects*, March 20, 23, 24, 25, 1959 (sale price 60 cents): April 1959.

Part 2. *Historical and Comparative Rates of Production, Productivity, and Prices*, April 7-10, 1959 (sale price \$1.00): May 1959.

- Part 3. *Historical and Comparative Rates of Labor Force, Employment, and Unemployment*, April 25, 27, and 28, 1959 (sale price 35 cents): June 1959.
- Part 4. *Influence on Prices of Changes in the Effective Supply of Money*, May 25, 26, 27, 28, 1959 (sale price 75 cents): July 1959.
- Part 5. *International Influences on the American Economy*, June 29, 30, July 1, 2, 1959 (sale price 50 cents): September 1959.
- Part 6A. *Government's Management of its Monetary, Fiscal, and Debt Operations*, July 24, 27, 28, 29, 1959 (sale price \$1.25): September 1959.
- Part 6B. *Government's Management of its Monetary, Fiscal, and Debt Operations*, August 5, 6, 7, 1959 (sale price 75 cents): November 1959.
- Part 6C. *Government's Management of its Monetary, Fiscal, and Debt Operations*, Replies to Questions on Monetary Policy, and other materials (sale price 65 cents): November 1959.
- Part 7. *The Effect of Monopolistic and Quasi-Monopolistic Practices Upon Prices, Profits, Production, and Employment*, September 22, 23, 24, and 25 (sale price \$1.25): November 1959.
- Part 8. *The Effect of Increases in Wages, Salaries, and the Prices of Personal Services, Together With Union and Professional Practices Upon Prices, Profits, Production, and Employment*, September 28, 29, 30, October 1 and 2 (sale price 75 cents): November 1959.
- Part 9A. *Construction Suggestions for Reconciling and Simultaneously Obtaining the Three Objectives of Maximum Employment, an Adequate Rate of Growth, and Substantial Stability of the Price Level*, October 26, 27, 28, 29, 30, November 2, 3, 4, 5, and 6 (sale price 70 cents): December 1959.
- Part 9B. Same title as 9A. (Materials submitted by 12 organizations at the invitation of the Joint Economic Committee) (sale price 45 cents): December 1959.
- Part 10. *Additional Materials Submitted for the Record* (sale price 60 cents): January 1960.
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Study papers

- †No. 1. *Recent Inflation in the United States*, by Charles L. Schultze (sale price 40 cents): September 1959.
- †Nos. 2 and 3 *Steel and the Postwar Inflation* by Otto Eckstein and Gary Fromm; *An Analysis of the Inflation in Machinery Prices* by Thomas A. Wilson (sale price 25 cents): November 1959.
- Nos. 4 and 5 *Analysis of the Rising Costs of Public Education* by Werner Z. Hirsch; *Trends in the Supply and Demand of Medical Care* by Markley Roberts (sale price 30 cents): November 1959.
- No. 6 *The Extent and Nature of Frictional Unemployment* by the Bureau of Labor Statistics (sale price 25 cents): November 1959.
- †Nos. 7, 8, and 9 *The Incidence of Inflation: Or Who Gets Hurts* by Seymour E. Harris; *Protection Against Inflation* by H. S. Houthaker; *The Share of Wages and Salaries in Manufacturing Incomes, 1947-56* by Alfred H. Conrad (sale price 45 cents): November 1959.
- Nos. 10 and 11 *Potential Public Policies to Deal With Inflation Caused by Market Power* by Emmette S. Redford; *A Brief Interpretive Survey of Wage-Price Problems in Europe* by Mark W. Leiserson (sale price 25 cents): December 1959.

- Nos. 12 and 13 *The Low Income Population and Economic Growth* by Robert J. Lampman; *The Adequacy of Resources for Economic Growth in the United States* by Joseph L. Fisher and Edward Boorstein (sale price 25 cents): December 1959.
- Nos. 14 and 15 *Liquidity and Financial Institutions in the Postwar Period* by John Gurley; *Profits, Profit Markups, and Productivity: An Examination of Corporate Behavior Since 1947*, by Edwin Kuh (sale price 35 cents): December 1959.
- No. 16 *International Effects of U.S. Economic Policy*, by Edward M. Bernstein (sale price 30 cents): January 1960.
- No. 17 *Prices and Costs in Manufacturing Industries*, by Charles L. Schultz and Joseph L. Tryon (sale price 20 cents): January 1960.
- No. 18 *National Security and the American Economy in the 1960's* by Henry Rowen (sale price 25 cents): January 1960.
- †No. 19 *Debt Management in the United States* by Warren L. Smith (sale price 40 cents): January 1960.
- No. 20 *The Potential Economic Growth of the United States* by James W. Knowles (sale price 20 cents): January 1960.
- No. 21 *Postwar Movement of Prices and Wages in Manufacturing Industries* by Harold M. Levinson (sale price 40 cents): January 1960.
- No. 22 *An Evaluation of Anti-Trust Policy: Its Relation to Economic Growth, Full Employment, and Prices* by Theodore J. Kreps (sale price 20 cents): January 1960.
- No. 23 *The Structure of Unemployment in Areas of Substantial Labor Surplus* by the Bureau of Labor Statistics (sale price 15 cents): January 1960.
- **New Views on Automation* (papers submitted to the Subcommittee on Automation and Energy Resources), committee print (sale price \$1.75): October 1960.
- †*Economic Policies for Agriculture in the 1960's*, Implications of Four Selected Alternatives (materials prepared for the Joint Economic Committee), committee print (sale price 25 cents): November 1960.
- 1960 *Descriptive Supplement to Economic Indicators* (Historical and Descriptive Background) (Prepared for the Joint Economic Committee by the Committee Staff and the Office of Statistical Standards, Bureau of the Budget), committee print (sale price 60 cents): December 1960.
- Energy Resources and Government* (materials submitted to the Subcommittee on Automation and Energy Resources by Federal and State Regulatory and Developmental Agencies), committee print (sale price \$2.00): December 1960.
- †*Subsidy and Subsidy-like Programs of the U.S. Government* (materials prepared for the Joint Economic Committee), committee print (sale price 25 cents): December 1960.
- Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe* (materials prepared for the Joint Economic Committee), committee print (sale price 25 cents): December 1960.
- Index to Hearings on Employment, Growth, and Price Levels* (with Tables of Contents of Study Papers and Reports) (prepared for the Joint Economic Committee), committee print (sale price 30 cents): December 1960.

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†Hearings, *Current Economic Situation and Short-Run Outlook*, December 7 and 8, 1960 (sale price 70 cents): January 1961.

†Hearings, *Government Price Statistics*, Subcommittee on Economic Statistics, January 24, 1961 (sale price, \$1.50): March 1961.

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Joint Economic Report (Report of the Joint Economic Committee on the 1961 Economic Report of the President), House Report 328 (sale price 35 cents): April 1961.

†*The Federal Revenue System: Facts and Problems* (materials assembled by the committee staff for the Joint Economic Committee), updates 1957 and 1959 prints by the same title. Committee print (sale price 70 cents): April 1961.

