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1967
JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1967 ECONOMIC REPORT OF THE PRESIDENT

TOGETHER WITH

STATEMENT OF COMMITTEE AGREEMENT, MINORITY AND OTHER VIEWS

MARCH 17, 1967.—Filed under authority of the order of the Senate of March 16, 1967 and ordered to be printed.

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JOINT ECONOMIC COMMITTEE

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

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LETTER OF SUBMISSION

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
March 17, 1967.

HON. FRANCIS R. VALEO,
Secretary, U.S. Senate,
Washington, D.C.

DEAR MR. VALEO: Pursuant to the Employment Act of 1946, section 5(b)(3), transmitted herewith is the "Report of the Joint Economic Committee on the January 1967 Economic Report of the President" together with the statement of committee agreement, minority, and other views.

The statutory date for submission of this report is March 1. This year the date for filing was extended by Public Law 90-1.

In accordance with the unanimous consent received yesterday, this report is being filed today.

Sincerely yours,

WILLIAM PROXMIRE, *Chairman.*

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1967 JOINT ECONOMIC REPORT

MARCH 17, 1967.—Filed under authority of the order of the Senate of March 16, 1967, and ordered to be printed

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

REPORT

together with

STATEMENT OF COMMITTEE AGREEMENT, MINORITY AND OTHER VIEWS

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

[NOTE.—Due to pressure of other responsibilities, Senator Fulbright was unable to participate in the hearings and other committee deliberations pertaining to this report and reserves judgment on the specific recommendations made therein.]

[NOTE.—Representative Hale Boggs states: "Due to unusually heavy commitments in connection with leadership responsibilities, I have been unable to participate as much as I would have liked in the formulation of this report. And while I am in general agreement with some of the recommendations, I do not feel sufficiently informed to endorse the report at this time."]

[NOTE.—Supplementary views of following members appear immediately after the report: Representative Wright Patman; Representatives Richard Bolling and Henry S. Reuss; Senator Herman E. Talmadge; and Senator Stuart Symington.]

STATEMENT OF AGREEMENT BY MAJORITY AND MINORITY MEMBERS OF THE JOINT ECONOMIC COMMITTEE

Members of the Joint Economic Committee agree generally on certain conclusions resulting from the recent hearings on and consideration of the President's Economic Report. These are listed below with the added observation that they are not meant to be exhaustive and that there are, indeed, many other points of general accord. All of the issues of general agreement are highlighted in both the report of the majority members and that of the minority members which follow this statement.

1. The administration's recommendation for a 6-percent surtax is based on the expectation of a substantial pickup of the economy in the second half of the calendar year. At present, economic activity is leveling out. There is considerable possibility that the optimistic midyear forecast may not eventuate, in which case a tax increase would be unwarranted. The Congress should remain flexible.

2. In the present circumstances, with pronounced abatement in investment and consumption, it is clear that the suspension of the investment credit is adding to downward influences by postponing investment decisions until January 1968, when the credit is to be resumed. It would be desirable for Congress to consider earlier restoration of the investment credit, as recommended by the President.

3. In view of the strictures placed on our money supply growth during the past year and the current economic outlook, it is important for the monetary authorities to further ease money and credit. Moreover, we agree as to the desirability of increasing the money supply at a more stable rate.

4. Because of the great importance of the Federal budget in the functioning of our economy, the Bureau of the Budget should be required to file with the Congress quarterly budget reports indicating major changes in earlier projections. Likewise, in accordance with the committee's earlier recommendation, longer term budget reports covering a 5-year period should be included in the annual budget message.

5. In view of the substantial budget deficit projected for the fiscal year 1968, there should be reduction of expenditures. In the first place, there should be greater assertion of priorities in terms of economic growth and national interest. This is imperative as part of our efforts to achieve an efficient allocation of resources. We agree that there is considerable room for reducing lower priority items or in some cases improving efficiency in government. The prospect of reduction in expenditures reduces the case for a tax increase even if the economy's expansion is restored during the second half of the year.

6. In the field of international trade and finance, there is also general accord on the following conclusions:

Agreement on international monetary reform is a matter of increasing urgency.

We cannot rely on supplies of new monetary gold being sufficient to assure the growth of international reserves, in keeping with the rising liquidity requirements of trade.

There are longer run disadvantages to some present balance of payments policies, for example, the restraint of private capital flows abroad.

Domestic cost and price stability are of prime importance to our international position.

It is desirable that we should have international coordination of interest rate charges.

Future trade negotiations will need to emphasize the reduction of nontariff barriers.

We see a serious danger that the Common Market may be turning inward, and in the interest of a growing and healthy international economy, we hope that this tendency will be arrested.

7. Wise investment in manpower training and other human resource programs will prove most beneficial to our economic welfare. Our present urban problems constitute a massive challenge to economic policy. We must strive harder to achieve effectiveness and efficiency in our welfare and poverty programs. Furthermore, poverty constitutes a great drag on our economy, as well as an embarrassment to our society, and its treatment demands high priority.

REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1967 ECONOMIC REPORT OF THE PRESIDENT

INTRODUCTION

During 1966 economic policy-making—both in the public and private sectors—faced changed circumstances from those that prevailed in the years immediately preceding. In essence, the problem became that of managing high employment rather than achieving it.

This same challenge will face us in 1967. The fundamental problem of economic policy is that of managing taxation, public expenditures, monetary policy, and wage-price movements so as to fulfill our rising potential. We must learn how to steer the economy closer to its maximum potential and avoid the recessions that have frustrated this goal in the past; at the same time our economy must continue to be dedicated to achieving these goals without encroachment on the fundamental freedoms of choice that now prevail.

For the first time in many years, economic policy had to cope with the prospect of excessive demand, a situation that was induced in part, unquestionably, by the Vietnam war. Yet the Nation demonstrated its ability to carry on the war and to achieve substantial growth at home without infringement of the individual standard of living. Real disposable income per capita available for private consumption or savings rose 3½ percent, or $80 per person, in 1966.

The performance is even more impressive when one considers the fact that Vietnam expenditures for fiscal 1967 are double the original budget estimates, thereby injecting a substantial and sudden demand increase that had not been anticipated in the economic planning of the Administration or the Congress.

Thus, the United States' economy, combining individual enterprise and government cooperation in the spirit of the Employment Act of 1946 proved its basic vitality by setting new records of production and well-being. And this was done in spite of some peculiarly difficult conditions.

1. The uncertain and escalating war in Vietnam made advance fiscal planning—the level of taxes and the level of Government spending—little short of unpredictable, with consequent conflicting signals and crosscurrents. Given a normally expected multiplier effect from the spreading waves of economic activity growing out of government expenditures, the unforeseen step-up in outlays for Vietnam probably is having an impact on the economy in excess of $20 billion in GNP terms.

2. As the year opened, the country had already been committed by action of the independent Federal Reserve System in December 1965 to a monetary policy of restraint on credit-financed spending, involving tight money and higher interest rates. The effect of this action was to narrow greatly the fiscal policy choices which might

have been followed for the year lest the combined monetary-fiscal policy risk economic "overkill."

3. In our report last year (page 9) this committee said:

> The Federal Reserve's December [1965] action in raising the interest rate ceiling on time deposits [at commercial banks] by 37½ percent [from 4 to 5½ percent] launched a major disruptive force into the flow of savings through financial intermediaries. It is impossible to foresee the extent of the dislocation and deterioration of credit that this action may cause.

In retrospect we now know that it set in motion forces which resulted in a drying up of mortgage money at the customary saving intermediaries. By fall of the year the Federal Reserve's action had produced strains and tensions in the credit market as volatile savings funds were encouraged to play at "musical chairs" among passbook deposits, certificates of deposit, and money market instruments. (The circumstance of the ensuing competition for deposits is discussed more fully below in connection with monetary policy.)

4. Confronted in the past with costly war efforts in World War II and the Korean involvement, public policy was driven to reliance on statutory price and wage controls to hold down the upward push on costs and prices. Statutory controls, of course, never have been acceptable in the United States except as a last recourse. Public policy in 1966 was dependent upon voluntary observance by industry, labor, and the trades of suggested wage and price guidelines. These served to hold inflation to a relatively mild pace in those industries where they were applicable. But in other sectors, such as food, services, and interest rates, where the guideposts were not applicable, prices rose appreciably. Also, the application of the guideposts to wages produced unfair results in some cases. And it has become obvious that in periods of price rise absolute adherence to the 1966 guideposts could bring about an actual decline in real earnings.

Looking ahead, a $47 billion increment in the production of goods and services is expected in 1967. Of this amount, some $10 billion will go to support our operations in Vietnam and meet other defense needs; $10 billion will go to provide public services, largely at the State and local levels; and more than $27 billion will provide an increase in consumption and investment in the private sector. But these expectations should give little basis for complacency. The extremely high interest rates of the past year have had a temporarily dislocative, disruptive, and uneven effect on the economy. Vigilance is required to repair the damage already done and to avoid additional hardship.

The upward creep of prices has threatened to ensnare the economy in a cumulative chain reaction of costs, prices, and profits. It poses the threat of cost-push price and wage increases at a time when waning demand requires stability or, in the case of prices, reductions.

The deficit in our international balance of payments continues to act as a restraint on both international and domestic programs. On the other hand the eventual prospect of decreasing international liquidity looms as a threat to necessary expansion in world trade.

Of even graver import is the fact that the Nation continues to be plagued with substantial preventable poverty. Approximately one out of six of our population lives below the minimum standard of decency, and it is obvious that the continued existence of poverty exerts a heavy drag on our growth potential. Not only does this situation rob us of productivity but it contributes greatly to social costs in the form of sickness, social friction, and crime. With the resources available to this Nation, the only course of action is to continue investments in human growth and development so as to reduce preventable poverty and its train of evils. To fail is not only unsound in terms of economic policy but inhumane.

As the Nation looks ahead, it is clear that the exuberance of the economy has abated substantially and indeed, at the moment, a process of leveling off is occurring. At the same time, the continued heavy involvement in Vietnam adds to the demands on the economy and imposes limitations on the progress of Federal programs for developing human resources.

OUTLOOK

The Administration's forecast of a $787 billion GNP for 1967, as well as its emphasis on the accelerated pace in the second half of the year, is an uncertain basis for policy. It rests on a number of expectations concerning the trend of events for the rest of the year. Sustained rise in investment, and an expansionary deficit in the Federal budget, may indeed fuel continued and accelerated expansion. But the slowness reflected in most economic indicators, including investment, and the possibilities of further reaction this year from the excessively tight monetary policy of 1966 and the suspension of the investment credit, point to a much less expansive course of events. The uncertainty emphasizes the need to maintain flexibility in policy as long as possible.

The American economy enters its seventh year of uninterrupted expansion with the rate of advance slowing rapidly. The Administration has projected a gross national product in current dollars for 1967 of $787 billion and continued unemployment at about the 4 percent rate or a little under. Of the 6½ percent rise in the value of output, the Administration expects 2½ percent to represent rising prices and 4 percent rising real output.

The Administration's economic forecast is based on a number of optimistic expectations as to the course of events during 1967. It assumes a sustained increase in investment throughout 1967 although at a much slower rate than last year. It anticipates rising demand for housing and other construction as a result of easier money rates; and it assumes sustained strength in the consumer sector, as well as a stimulative government sector resulting from Vietnam war needs superimposed on growing demands for domestic programs. It assumes that inventory accumulation will be sharply reduced in the first half of the year, then stabilized later. It also assumes a rise in consumer demand reflecting the proposed increase in Social Security benefits. On the basis of these optimistic expectations, the President has proposed a 6 percent surtax on individual and corporate income taxes, to become effective at midyear.

But there is contrary evidence. Many of the leading indicators of economic activity for several months have been pointing toward a slowdown or even a downturn.

(1) The action of the Federal Reserve System during 1966 severely restricted bank credit and the money supply. Previously, restrictions helped cause recessions, a factor that leads many economists to anticipate further depressive effects this year from our monetary policy. The flow of funds is usually much more available to housing in the winter than in the spring and summer, and recent evidence of strength in this sector could easily turn out to be a false hope.

(2) Inventories are high in some industries and should these companies shift to a policy of inventory liquidation, as is often done in a period of slowdown, it would have a retarding effect on the economy.

(3) Recent weakness in automobile markets may turn out to be something other than a mere weather phenomenon or a temporary condition, and a sustained drop in automobile demand for the year would make a real dent in output and employment.

(4) Other evidence of consumer demand is not too favorable; for example, the January level of retail sales was only one percent above a year earlier while prices were up more than one percent; therefore, real volume was down somewhat.

(5) Industrial production declined in January by over one-half of one percent with declines in output concentrated in consumer durable goods, while production of business equipment and nondurable materials changed little in the early part of this year.

All in all, a review of the economic situation suggests that it would be wise to maintain as much flexibility as possible this year until we see how far the Federal Reserve System is prepared to go in easing monetary policy; how strongly the economy responds to the easing of credit conditions; and, finally, what action the Congress takes on Federal expenditures. Only then will it be possible to determine the probable course of events with enough certainty to form a basis for a change in the stance in fiscal policy.

FISCAL POLICY [1]

The calendar year 1967 begins with the Federal budget (national income accounts basis) in a stance of substantial and growing deficit—probably at least a $5 billion per year rate at the moment. If no tax increase is enacted, and expenditures turn out about as the President expects, the N.I.A. deficit under the Administration's projections would widen further, running at a rate between $7 billion and $10 billion per year in the latter part of this calendar year, assuming about 4 percent unemployment.

This suggests the first imperative for fiscal policy in 1967.

Federal expenditures that are not absolutely essential to national defense or our economic growth or welfare must be sharply reduced. Congress must find ways to reduce expenditures for fiscal 1968 by at least $5 billion to $6 billion per year.

With the Vietnam war expected to absorb about $22 billion out of our national output, and the deficit in the Federal budget growing, it is imperative to reduce all Federal expenditures not absolutely essential to national defense or to economic growth and welfare. In the

[1] Senator Ribicoff says: "As a member of the Senate Finance Committee, I will doubtless be required at a later date to pass upon the President's proposal of a tax increase to be in effect after mid-year. For this reason, I do not desire at this time to pass upon questions of fiscal policy pending the full hearings and discussion of the Finance Committee."

Representative Martha W. Griffiths said that as she is a member of the House Ways and Means Committee, where fiscal policy legislation must originate, she prefers not to pass upon questions of fiscal policy at this time.

See also, separate views of Representatives Richard Bolling and Henry S. Reuss, p. 42

present situation, some activities can be temporarily postponed until the strains on the budget are less demanding. Moreover, it is a sad commentary on public affairs that agency staffs often tend to outlast the fulfillment of objectives for which their agencies were originally established. This committee does not presume to tell the Congress and the Appropriation Committees precisely where and by how much to cut expenditures or appropriations, but we do stress that it is essential to face up to the responsibility for reducing expenditures *now*. At the same time, the committee must stress the importance of not falling into another trap in the process of reducing expenditures, namely, that of reducing spending on the all too vulnerable human resource programs. These are sound investments with a high pay-off in increased productivity. They must be maintained, and even prudently expanded, if we are not to pay a high price a few years hence for false economy today.

The Administration's proposal for a tax increase is fundamentally a proposal now for action in the future to deal with contingencies that may not be realized. Congress can meet these contingencies when and if they arise.

As we have pointed out in our review of the President's assumptions about the economic outlook, this is a year of great uncertainty as to investment, inventories, consumer demand, and other factors. Forecasting, a difficult art at best, is even more uncertain this year by reason of the aforementioned cross currents in the economy. The President's proposal for a 6 percent surtax on individual and corporate incomes to take effect July 1 of this year is, in fact, a proposal that Congress consider now what to do about a future contingency which may not happen. Changes in monetary policy and in private economic tendencies may completely change the situation by mid-year. Furthermore, Congress can and should alter prospects by changing expenditure programs downward. There will be enough time to act on tax policy when we know the outcome of these other possibilities.

In the case of an across-the-board, temporary increase in income tax rates, there is no purpose served by consideration of the proposal long in advance of its need. The real problem is one of information. It is the decision as to whether the complex of economic activities at any given time warrants a tax increase that causes delay. Congress has the ability to act rapidly on tax matters and has demonstrated this ability on many past occasions. The real problem is that of adequate information and vigilant survey of economic developments in order to determine what tax actions are warranted. This responsibility would in no way be facilitated by a premature consideration of the tax proposal.[2]

There are widespread evidences of concern lest the current suspension of the investment tax credit result in an "air pocket" in investment toward the end of the year. It is feared that businessmen will hold off on orders for investment goods in the last quarter of the year, waiting for the investment credit to come back into effect on January 1, 1968. In view of other evidences of weakness in the economy we cannot afford this additional downdraft. Congress, therefore, should restore the investment credit. We laud the President for his action

[2] See Hearings and Report of our Subcommittee on Fiscal Policy, "Tax Changes for Shortrun Stabilization," March–May 1966.

on March 9 in calling for restoration of this incentive to help stimulate investment.

In connection with fiscal policy and the proposals for a tax increase, it is important to avoid unwarranted conclusions regarding the relevance of fiscal and monetary policy to possible price increases during 1967. As was brought out in the committee hearings, price increases this year are not likely to be the result of a general excess of demand. Tighter money and higher taxes will not be the answer to price increases brought about by cost-push forces or by changes in the prices of services induced by sharp increase in demand. Such increases are relatively insulated from fiscal and monetary policy actions. Certainly the Government should be alert to the problems of this kind of inflation and should do what it can to moderate these forces as discussed later in this report. But the time to have stopped cost-push inflation in 1967 was when the original excess-demand inflation started, over a year ago. This committee pointed out then the need for action. It was not taken. To take action now would be a case of locking the door after the horse has gone.

Moreover, the circumstances of the increase in expenditures for the Vietnam war exerted an upward influence on prices. The initial estimate taken into account in economic policy planning for the fiscal year 1967 was $10 billion. It was not until late in 1966 that the Administration clarified the fact that the actual expenditures would be double that figure, a tremendous increase. This increase, with an undoubtedly high multiplier effect coming suddenly and unexpectedly into a high employment economy, inevitably exercised a strong upward pressure on prices.

The highly disruptive effects of this episode highlight clearly the urgent need for quarterly reporting to the Congress of anticipated budget expenditures. With approximately 20 percent of the national income passing through the Federal sector, there is an obvious need for frequent and accurate estimates of receipts and expenditures. Otherwise, the competent management of high employment policy bears an impossible burden of uncertainty. For this reason the committee recommends that Congress require quarterly reporting of budget expenditures by the Administration to the Congress.

Even if the Executive Branch is not prepared now to go all the way in the quarterly reporting of revisions in the Budget, as recommended above, at the very least it should give the Congress quarterly estimates of the cost of the Vietnam war. Estimates of these expenditures were grossly wrong for fiscal 1967. They were not corrected until late November when Congress had gone home.

This committee can recommend sensible economic policy to the Congress only if spending estimates are reasonably accurate. In the face of the unpredictable elements of war costs, quarterly estimates would surely improve the soundness of this government's economic policy.

In addition, the committee strongly endorses the President's appointment of a Commission to make a thorough review of the budget document, preliminary to a complete reform. This should bring the entire budget document much

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closer to the ideal spelled out by this committee and its Subcommittee on Economic Statistics in earlier years, particularly in its report of August 1963.

The present organization and semantics of the Federal Budget document have created serious problems through a lack of proper transmission of information both to the public and the Congress. Concepts, definitions, organization—all these tend to create more confusion and misunderstanding than clarification. This committee's Subcommittee on Economic Statistics presented sweeping proposals for reform in its report of 1963 entitled "The Federal Budget as an Economic Document." It is therefore with pleasure that the Joint Economic Committee endorses the President's action in appointing a Commission to make a thoroughgoing review of Budget concepts and method of presentation. This is long overdue.

In the meantime, we call to the attention of the President and the Bureau of the Budget another recommendation in the subcommittee's document of 1963, that the Budget should be presented each year in the context of ". . . a broader, longer run set of budgetary projections . . ." and that there should be regular periodic reviews of budgetary estimates at least once a quarter and, finally, that budget estimates should be, to the maximum extent possible, broken down by calendar quarters rather than being shown as annual totals.

The Budget Bureau and the President should put this program into practice immediately. It is particularly necessary at this time in view of the uncertainties in the Budget arising from the Vietnamese war. Unquestionably, economic policy would have been better executed last year had such a program been in operation so that the 100 percent miscalculation in estimating expenditures for that conflict would have become clear to the Congress sooner than was the case.

A parallel development of recent years, which has started since the Joint Economic Committee's Subcommittee on Fiscal Policy first recommended it some years ago, is the extended use of the so-called Program-Planning-Budgeting System, or PPB–S. We commend the President and the Budget Bureau for the extension of these techniques and we look forward to the improvements in this area being reflected throughout the Federal Budget, including the presentations in the present document itself. Our experience in asking for information in connection with the study on "Federal Programs for the Development of Human Resources" by the Subcommittee on Economic Progress indicates that there is much yet to be done in putting these PPB–S techniques into practical operation in the various Departments.

The President should emphasize very strongly to the members of his Cabinet the need for making progress in the development and utilization of these techniques.

In addition, it would be very productive for the Executive Branch to make the results of the PPB–S approach to the 1968 budget available to the Congress so as to permit the committees of the Congress better to evaluate some of the alternative methods of achieving public policy goals and, therefore, to achieve a more effective and economical use of resources.

MONETARY POLICY[3]

The year 1966 demonstrated anew that tight money can stop an on-rush of an economy which is exceeding "reasonable speed limits," as the President's Economic Advisers put it, but not without serious dislocation of some sectors. The ones who suffered in the 1966 application of the brakes were the construction and housing industries and small businesses. The year brought the highest interest rates in 40 years and the lowest level of housing starts in ten years. The course of events has left experts at the beginning of a new year undecided whether the economy is poised for a downward slide or whether it can still be steadied into a renewed expansion by monetary ease.

The kind of ease required for the economy's health must take the form of a positive action by the Federal Reserve authorities to increase bank credit and the money supply rather than the misleading form of "ease" brought on by a decline in the demand for private credit caused by uncertainty and stagnation in the economy.

During most of 1966, the nation's money stock consisting of demand deposits and currency not only ceased to expand but actually decreased from last May until November. Meanwhile, a strong demand for goods and services pushed up the volume of credit extended.

This strong demand for loans, pressing against the limited increase in reserves supplied to the banking system, was manifested by rising interest rates—a rise which tended to accelerate after April 1966. The high interest rates had the inevitable corollary effect of pushing down the price of bonds and the value of existing capital assets as investors reappraised the flow of returns from common stocks and real estate at prevailing rates of interest.

This upward movement of the market rates of interest generally had left the 4½ percent discount rate considerably out of line. In the summer of 1966, the directors of several regional Reserve banks proposed increases in the discount rate—the rate at which Reserve Banks stand ready to supply additional reserves to member banks. It is to the credit of the Board of Governors that it rejected these proposals, since to have approved them would almost certainly have resulted, as the Board itself foresaw, in "further escalation of interest rates including those being offered for funds by banks and non-bank financial institutions." Regrettably, however, the far more important monetary instrument, namely, open market purchases, continued to operate restrictively at least until late November. Since then monetary policy has been admittedly less restrictive, with the result that the money supply has risen at an annual rate of 2.8 percent through the end of February.

While interest rates have declined somewhat from the peak levels of last fall, they still remain high relative to mid-1965 when the recent upward thrust began.

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[3] See supplementary views of Representative Wright Patman, p. 37.

The following table makes selected comparisons:

	June 1965	Nov. 19, 1966	Mar. 4, 1967
3-month Treasury bills	3. 80	5. 38	4. 47
4- to 6-month commercial paper	4. 38	6. 00	5. 38
Intermediate term Government bonds	4. 09	5. 47	4. 70
Long-term Government bonds	4. 14	4. 77	4. 53
State and local Government Aaa	3. 15	3. 81	3. 53
Corporate bonds highest grade	4. 46	5. 36	5. 11

In spite of some recent increase in the holding of Government securities by the Federal Reserve System, the money supply—the national stock of demand deposits and currency—has, on balance, shown no marked increase since last April although the uses and needs to support a continuously rising volume of trade and Gross National Product are undisputed. The Federal Reserve authorities have taken steps, effective just as this report is being issued, to ease the availability of bank credit by reducing reserve requirements on certain time deposits, as well as lightening the pressure on bank reserve positions through open market purchase of Treasury bills. It is too soon to judge whether the steps taken are more than those necessary to meet seasonal needs, but it is hoped that the actions are a visible evidence of the Federal Reserve's intention to move toward greater ease.

The committee urges that the monetary authorities adopt the policy of moderate and relatively steady increases in the money supply, avoiding the disruptive effects of wide swings in the rate of increase or decrease.

The committee is impressed with the increasing weight that many economists give to the importance of a steady rise in the money supply. Such rate of increase should be more or less consistent with the projected rate of growth—generally within a range of 3–5 percent per year. Sudden changes in the money supply give rise to instabilities in the economy. We are convinced that restoration of economic growth and avoidance of a recession demand such increases in the money supply as recommended above. Failure now to provide the conditions of monetary ease in whatever amount is needed to stimulate and move bankers and businessmen to renew the rate of economic expansion can only serve to throttle the long run forces of economic growth.

In addition to the lag in the rate of increase in the money supply, the committee is also troubled by an increasingly competitive race among banks and financial intermediaries for new time deposits.

This situation was triggered by the December 6, 1965, action of the Board of Governors amending Regulation Q, which aimed at preventing a threatened run-off of maturing large certificates of deposit at large member banks. The action, increasing the maximum rate that member banks were permitted to pay on certain types of longer term deposits, was "intended to enable the banks [i.e., commercial member banks] to attract and retain deposits of businesses and individuals and thus to make more effective use of savings funds already available in the economy to finance their loan expansion." [4]

The Federal Reserve Bank of New York, which would hardly be suspected of understatement in the circumstances, said in its January 1966 Review, "the Board of Governors' announcement of a rise in the discount rate and changes in Regulation Q caught the market by surprise and sharp adjustments followed . . . Considerable uncertainty continued as the market watched the rate adjustments on new negotiable time certificates of deposit which compete with Treasury bills for investment funds."

Granted that loan demands at commercial banks were at record levels, and granted further that existing rate ceilings at member banks were less than savers and corporate treasurers could earn elsewhere, there was no place for funds to come from except by withdrawals from other sectors of the financial system, especially the institutions specializing in housing finance and the market for Treasury bills and longer term bonds. The change effectively opened a Pandora's Box since the commercial banks, in bidding for funds in a period of unusually insistent loan demands, were immediately prompted to raise the loan rates charged to customers.

Succeeding months brought an upward spiral in interest rates. By the end of February, large New York City commercial banks increased the interest rate on non-negotiable savings certificates of deposit of 9 months or longer maturity, having already raised offering rates on new 3- and 6-month non-negotiable time certificates. Caught up in the spiral, the Federal Housing Administration on February 7, almost out of necessity, raised the maximum permissible interest rate chargeable by lenders on insured mortgages from 5¼ to 5½ percent. During the month of March, again according to the New York Reserve Bank, rates on new negotiable time certificates of deposit issued by commercial banks moved higher. On April 11, the Federal Housing Administration again increased the maximum interest rate permitted on mortgages it insures, this time from 5½ to 5¾ percent. The Veterans' Administration made a similar rate change on the mortgages which it guarantees. By the end of May banks were paying the maximum permissible rate of 5½ percent on certificates maturing in 3 months, and quite commonly on longer maturities as well.

Offering rates posted by the leading money market banks on time certificates of deposit continued to increase in June and July when the ceiling rate of 5½ percent was reportedly paid by prime banks on new certificates maturing in as little as 30 days.

Even so, commercial banks found it increasingly difficult with the 5½ percent ceiling to attract and keep time deposits, especially those obtained through issuance of large negotiable time certificates of deposit. In mid-August, the prime lending rate charged by large banks was raised from 5¾ to 6 percent, the fourth time in nine months that the rate had been raised.

On October 3, the Federal Housing Administration found it necessary for the third time to raise the maximum rate allowable on insured mortgages—this time from 5¾ to 6 percent where it remains today.

[4] See *Federal Reserve Bulletin*, December 1965, p. 1667.

By early fall the spiral had worked up to a pitch calling for emergency legislation which President Johnson signed into law on September 21. Acting under the new authority, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board announced a series of new interest rate ceilings on time deposits and savings accounts which generally went into effect on September 26. The maximum rate of interest which both member banks and insured non-member banks may pay on an individual time deposit of under $100,000 was reduced from 5½ to 5 percent. It is rather ironic that the relatively small depositor was, in effect, discriminated against, but it was hoped that this type of deposit would, as a result, be forced back into or at least would be less tempted to flee the savings institutions normally supporting the mortgage money for the housing industry. The Federal Home Loan Bank Board, at the same time, imposed rate ceilings on deposits of member institutions of the Federal Home Loan Bank Board System, generally—with certain local exceptions—4¾ percent on passbook savings and 5¼ percent on certificate accounts carried for at least six months. Along with other measures—suspension of the investment tax credit and accelerated depreciation provisions, temporary suspension of further sales of participation certificates, curtailment of new money borrowing by government agencies—the supply of mortgage money appears to have increased in the weeks following, but it is obvious that we have a long way to go to restore financial balance to the economy.

The committee vigorously rejects the notion that a tax increase should serve as a "trade-off" for easing money. As indicated above, the resumption of a policy of steady increase in the money supply is an urgent prerequisite to sustain economic growth.

Several witnesses at our hearings warned the committee against being misled into thinking that monetary policy is now "easy" because interest rates have declined somewhat or because free reserves have risen. And it would be a gross miscalculation were the Fed to take the view that a tax rise should be the price of badly needed monetary ease.

This committee has previously criticized this lack of coordination in the use of the Government's principal stabilization tools and called for legislation to correct the situation. While we hope that the Executive Branch has strong grounds for expecting coordination in the future, experience of the past, such as the precipitous actions of December 1965, gives rise to uneasiness about the assurance of coordination in the future.

In his Message on the State of the Union, delivered on January 10, 1967, the President said:

> Monetary conditions are also easing. Most interest rates have retreated from their earlier peaks. More money now seems to be available.
>
> And given the cooperation of the Federal Reserve System, which I so earnestly seek, I am confident that this movement can continue. And I pledge the American people that I will do everything in a President's power to lower interest rates and to ease money in this country. * * *

> We shall continue on a sensible course of fiscal and budgetary policy that we believe will keep our economy growing without new inflationary spirals * * * and will press forward toward easier credit and toward lower interest rates.

In his Economic Report, transmitted to the Congress on January 26, 1967, the President said:

> Now that the economy's advance is again more moderate, the burden of tight money is being lifted. Interest rates are still extremely high—but they are moving down from their peaks. Credit is still not readily available to all who can make sound and productive use of it—but it is becoming easier to get. * * *
>
> The steps we took last year and those I am now proposing, the steps the Federal Reserve has recently taken and is continuing to take to increase credit availability and lower interest rates, should have our housing industry moving smartly forward by the end of 1967, and ready for one of its best years in 1968. (Page 7.)

Because of the vital importance of monetary policy, the committee urges the Federal Reserve System to take full cognizance of the role expected of it.

GROWTH AND UNEMPLOYMENT

One of the most crucial questions facing economic policymakers is that of the potential growth rate of the economy in 1967. To reduce unemployment, it is obvious that the growth rate of the economy must be higher than that projected by the Council.

> **The Joint Economic Committee, therefore, rejects the unemployment rate of 4 percent which the Economic Report presumes for 1967. Fulfillment of the requirements of the Employment Act necessitates a 1967 interim goal of 3½ percent unemployment and the longer range goal of 3 percent. There is no fundamental reason why this objective cannot be achieved.**

Regrettably, the Council takes the position that the economy's potential will increase by only 4 percent in 1967. It reasons that productivity in the private sector increased by something over 3 percent a year in the post-war period and about 2½ percent less when account is taken of the public sector.[5] With this rate of productivity increase and a rise in manhours of 1½ percent, the Council arrives at an estimated increase in potential output of 4 percent.

It was brought out in the course of testimony that the Council might have underestimated the degree of demand expansion required to hold unemployment at existing levels. It was noted in this regard that the 1966 production advance exceeded the Council's expectations by one-half of 1%. The Council projected 5% whereas the actual was 5½%. Even with that brisk rate of increase, however, unemployment failed to decline as much as expected, mainly because of the unexpectedly high elasticity of labor supply in response to new job openings. The total labor force grew by 2.3 percent in 1966 as

[5] Current methods of measuring productivity increase have no way of taking into account any rise in the productivity of Government employees.

compared with an average of 1.4 percent for the preceding five years. It grew by 2.9 percent from December 1965 to December 1966, while the population of working age increased by only 1.6%.

It seems clear that this experience indicated that the lower participation rates in the early 1960's resulted from the fact that there were fewer job opportunities. This should not be regarded as genuine withdrawal from the work force.

There is question as to whether we may expect further gains to occur in civilian labor force participation if economic expansion continues to be vigorous, particularly if there were an increase in the Armed Forces; but it is to be noted that the rise in labor force participation accelerated in 1966. It is important to note also that participation rates still have not reached the high points of the mid-1950's. Another positive factor in the growth picture is the prospect of increased labor productivity resulting from the high rates of investment in plant and equipment in 1965 and 1966.

These two considerations on the side of productivity and of labor force increases would add to the likelihood that the economy is capable of a higher rate of production increase than the Council indicates. Indeed, the committee believes that complacent acceptance of a 4 percent growth rate would result in a rising rate of unemployment—an intolerable prospect.

There is, of course, much that government and industry can do about the matter. As indicated in the section below on human resources, wise investment in education and training can do much to ease stresses in the labor market, while adequate overall demand is essential. At the same time, courageous and vigorous wage-price policy is needed to avoid evaporation of our potential gains in a spiral of wage-price increases.

PRICES, COSTS, AND INCOME

Achievement of full employment potential depends heavily on our ability to resolve the problem of maintaining price stability; otherwise price and wage inflation will frustrate our efforts to achieve the most effective use of our economic resources.

Prices rose too rapidly in 1966 and are in danger of doing so again in 1967. Price stability cannot be restored by a timid growth policy, but rather by a concerted effort to coordinate public and private policies to produce full use of our resources.

The Consumer Price Index rose 3.3 percent from December 1965 to December 1966. The service component rose almost 5 percent and accounted for one-half of the increase in the total index. The cost of medical care services rose 8.1 percent. Food prices rose almost 4 percent and accounted for about one-fourth of the rise in the total index. However, the sharpest advance in food prices occurred in the first half of the year—3 percent from December 1965 to June 1966—while the increase was only 0.7 percent from June to December. Commodities, other than food, contributed the other quarter of the rise, although the weight of this group in the index was about 43 percent.

The Wholesale Price Index rose 1.7 percent from December 1965 to December 1966. The prices of farm products, foods, and feeds rose 1 percent, while prices of other commodities rose 1.8 percent. However, there is evidence that upward pressures on wholesale prices of food, farm products, and other raw materials receded during the year. The rise in industrial products, particularly finished goods, has continued at a steady pace.

The Implicit Price Index, the most general of our available price indices, rose 3.0 percent from 1965 to 1966; and 3.5 percent from the 4th quarter 1965 to the 4th quarter 1966. The rate of increase has moderated somewhat, from 3.6 percent and 4.3 percent during the 1st and 2nd quarters respectively, to slightly more than 3 percent in the 3rd quarter, and to less than 3 percent in the 4th quarter.

The general upswing in prices from mid-1965 through 1966 resulted in part from a too rapid approach to the potential rate of growth, that is, from demand pressures. But it was also derived to a considerable extent from special circumstances in the food and service areas which cannot be attributed to a general excess of demand.

The committee emphasizes that high priority should be accorded to research in the area of prices and price indices. For effective public policy, we need to know how prices of various product groups are affected by particular types of monetary and fiscal measures: for example, which prices would tend to increase because of higher interest rates and which prices would tend to stabilize; which prices would be affected if stringent fiscal policies were adopted.

The Subcommittee on Economic Statistics held hearings during 1966 on "Government Price Statistics." One of the major recommendations contained in its report was that research emphasis should be directed toward the development of selected price indices for analyzing and predicting inflationary pressures. The report also emphasized:

> The Nation urgently needs better, more adequate price statistics. Though we have better information on prices and price changes than any nation in the world, it is not adequate for the burden of public and private policy formulation that it must carry. Our price data must guide monetary, fiscal, and employment policies; and they must measure the standard of living of the American people.[6]

Beginning in 1961, the gap between the actual GNP and potential GNP began to close gradually and without inflation. As the economy neared its potential, in 1965–66, the necessity for a slower approach to potential became necessary. Instead, the demand for defense-related goods and for plant and equipment burgeoned beginning in mid–1965. In critical sectors, the demand for raw materials and for manpower pressed upon the available supplies. In the manpower market the forces of adjustment worked well, but not rapidly enough. Workers were not able to retrain or to switch fast enough to the areas of critical shortage. In an attempt to hold the workers at their old jobs, wages in low-paid sectors were bid up far more rapidly than their long-run rate of increase.

[6] "Government Price Statistics," Report of the Subcommittee on Economic Statistics of the Joint Economic Committee, July 1966, p. 14.

In establishing public policy toward prices, it is essential to separate, insofar as possible, those prices which are primarily affected by special circumstances. It would be both wrong and harmful to deal with all types of price pressures by means of lowering the target rate of growth by restrictions on aggregate demand.

Price increases in wholesale food commodities were temporary when compared to long-term trends. Retail food prices, on the other hand, will no doubt continue to creep upward as they have in the past due to consumers' demands for more and more services along with the food items.

In this connection, it seems an obvious conclusion that the requirements of price stability, considered in conjunction with the world food balance and rising domestic incomes and population, require a flexible farm policy.

Prices of consumer services, as in the past, will continue to rise more rapidly than the overall Consumer Price Index. This is due, in part, to the shift in consumer preferences as incomes rise, and the slower rise in labor productivity in the services sector which has had less scope for mechanization and automation than the goods producing sectors. In addition, there had been distortions in the wage structure. Many groups of service workers were paid very low wages in comparison with other groups who have comparable skills, education, etc. On the other hand, there is a highly paid and highly trained segment of the service workers; for example, doctors, lawyers, and university professors.[7] In the case of consumer services, there must be emphasis on stimulating the supply of skilled services rather than efforts to directly influence price.

With respect to commodity prices, there is no doubt that when aggregate demand increases rapidly, particularly when the economy is operating near its potential, industrial prices are subjected to strong upward pressures. Some discuss this relationship in terms of a "tradeoff" between the rate of unemployment and the rate of increase in the general price level.

This committee does not accept for one moment the notion that the welfare of the poor and the unemployed must be sacrificed in order to achieve price stability.

Policies which attempt to bring the economy to full employment do run the risk of price increases if we approach full employment too rapidly. We have witnessed one such period from mid-1965 through 1966, when localized scarcities of labor appeared and when industrial prices were subjected to strong upward pressure. This kind of strain can be corrected in a relatively short time by adjustments within the economy.

On the other hand, longer term strains caused by an excess of demand over supply, require positive corrective measures. Left alone,

[7] Costs of educational and legal services do not enter into the Consumer Price Index, yet they affect almost every family.

general demand inflation poses a danger of acceleration because the expectation of price increase is built into price and wage determination, thus nullifying any attempt at a longer term "trade-off." Recognition of the fallacy of continuous trade-off, however, should not be allowed to obscure the fact that there is great danger of overreacting to the more rapid rate of price advance in 1966.

In the industrial sector, where large firms and large unions are characteristic, wage and pricing decisions have important discretionary elements. Managements may have target rates of return on sales or on equity capital which they believe should be attained over the long run. On the other hand, union negotiators have targets for increases in wages and fringe benefits based on what they believe can be justified as a result of rising productivity, past increases in the cost of living, and possibilities for redistribution of income between capital and labor.

In the past, there has been a dreary inconsistency in some of these decisions. Rising demand and rapidly increasing productivity have resulted in rapid increases in total profits and profit margins during the upswing in the economy. Productivity advances slowly as capacity is neared, while wage increases tend to accelerate due to large observed profits and rising consumer prices. Businesses tend to raise prices in an attempt to maintain or to better the profit margin achieved in the upswing. This combination of circumstances plus rising interest costs has often choked off the advance, leading to recession in output and employment while prices continue to rise.

This need not be reenacted with a sense of inevitability. It may seem to be to the advantage of each participant to seek maximum short-run advantage and to feel justified by the "laws of supply and demand." But, this is self-defeating conduct because, in the aggregate, it is inconsistent with long-run equilibrium at full employment of labor and capital without inflation. The perpetual search for short-run benefits results in persistent long-run disadvantages for all. The resulting price increases spread and tend to be built into the structure of the economy, so that the only way for equilibrium to be restored is for general wage and price levels to escalate to ever higher plateaus, with intermittent recessions, carrying with them losses of the previous short-run gains. This situation gave rise to the guideposts.

The farm sector of the economy suffers particularly in periods of cost-push inflation such as we are in danger of experiencing in 1967.

In the present expansion, farmers have already begun experiencing a reversal. The index of prices received by farmers on February 15, 1967, was 7 percent below its level of a year ago. During this same period, the index of prices paid by farmers for production expenses has gone up by about 2 percent. A major case in point is agricultural machinery and equipment prices which have gone up approximately 3½ percent in the last year.

Traditionally, agriculture tends to prosper during the early stages of expansion when farm prices tend to rise sharply. However, the periods of rising farm prices have been short lived and have been followed by periods of falling farm prices. In contrast, the rise in prices paid by farmers tends to accelerate in the late stages of expansion and often continues long after demand pressures have declined.

Why have farmers been chronically plagued by a cost-price squeeze? The reasons are found in the nature of the industry and in the nature of the wider economy in which farmers operate. First, farm output is very responsive to rising prices which tend to occur during periods of high aggregate demand. However, the response occurs after some lag because of seasonal and life-cycle production patterns.

The farm sector is highly competitive. The benefits of any cost savings due to technological change are immediately passed on to consumers. If farm prices do rise temporarily in periods of high demand the impact is immediately felt in expanded demand for the products of industries which sell to farmers. The pricing patterns of these industries tend to be prime examples of administered or so-called target pricing industries, where the very large firms set their prices in relation to their costs, plus a profit margin which they believe is feasible in the long run.

Because of the unstable characteristic of farm prices, the lagged but great response of farm output to temporary price increases, and the administered pricing policies of industries which *buy from* and *sell to* farmers, public farm policy is needed today as it was needed in earlier years. It is true that farms of today are larger and more efficient than those of yesterday; but the basic problems of the industry, which are primarily due to the above factors, are still present.

The essential issue is not whether we need guideposts to wage and price decisions but rather how public and private policymakers can be induced to follow them. The guideposts represent an attempt to educate decision makers so that they understand how to reconcile short-run practices with the requirements of long-run full employment equilibrium. Any retreat from the basic philosophy of the guideposts would be a retreat from the objectives of the Employment Act as well as from the lessons of past experience with cyclical instability and inflation.

As noted earlier, the basic problems in practical day-to-day application of the guideposts arise because monetary instability, or transistory conditions—such as the defense buildup for Vietnam or an unusual harvest situation—may cause a deviation of money wages and prices from the standards indicated by long-run real relationships, such as that between productivity and real wages. In a completely competitive and completely flexible economy these short-run problems might iron out without serious repercussion, but in the American and similar economies, there is a real need for the educational influence of guideposts because—

(1) our economy is characterized by very large and efficient corporations, capable of establishing and maintaining high prices;

(2) it is also characterized by very large unions capable of negotiating high wages;

(3) most labor and product markets are a blend of competitive and monopolistic forces; and

(4) our labor and product markets are highly interdependent so that wage and price changes cause waves and ripples far from the original source.

As we survey the experience of our past, wholesale and consumer prices rose approximately 2½ percent annually in the period 1955 to 1958. These clearly unacceptable price increases occurred in spite of the fact that manufacturing capacity utilization averaged only 84 percent from 1954 to 1958 and the unemployment rate averaged 5.1 percent. This period provided an example of "cost-push" inflation where demand-pull in only a few sectors produced cost-push throughout the economy—a phenomenon that derives from the market power of large corporations and labor unions. It provides a good case study of the aforementioned fact. As indicated earlier in the report, we face the possibility of a similar situation in 1967. For this reason some form of guidelines is particularly necessary at the present time.

From the point of view of the large firms themselves and certainly from the public's standpoint, the guideposts provide a significant reminder that pricing decisions have a wide impact. The guideposts provide rules of behavior such that the combined decisions of the major groups will be consistent. Now, more than ever before, is the time for economic groups to become increasingly conscious of their roles and their responsibility to the larger community.

It should be recognized that in 1966 some distortion in real incomes occurred because of the rise in consumer prices. A war had to be fought; resources were called upon by the price mechanism to shift rapidly without resort to price controls. Some of the price increases stemmed from a rise in the incomes of several major groups, whose incomes in the past have lagged badly—for example, farmers, nurses, and relatively unskilled, unorganized wage earners. These price increases were a once-over occurrence and do not need to recur. Moreover, as indicated above, a substantial component of the price increase during the past year was induced by factors other than general demand pressures; general fiscal and monetary restrictions do not directly affect such rises except by causing drastic curtailment of economic activity. In judging the need for fiscal and monetary action in the management of our high employment economy, it is important to distinguish between price increases caused by demand and those arising from other factors. Failure to recognize the distinction can result in gross misapplications of general economic policies.

The committee endorses the principles set forth in the guideposts. However, it believes that there must be continuous innovation to make the guideposts adaptable and effective. In this regard, the Council of Economic Advisers can and should elaborate its 1967 guideposts.

To make the guideposts more effective in influencing the behavior of market participants, there should be some modification to take partial account of past changes in the general price level. For example, "target" guideposts should be established which, if followed, would lead to a slower rise in prices and would, as soon as possible, lead to general price stability.

The President, with the assistance of the Council of Economic Advisers, should submit quarterly or semiannually a report on the extent to which the economy is achieving the wage-price goals set forth in the Employment Act. To the extent that events modify the reasonably expected behavior of the market participants, the public ought to be currently informed about how this affects the guideposts. Likewise, pricing policies and cost structures should be studied in industries experiencing rapid advances in productivity to determine the extent to which the benefits are being passed on to the public.

In addition to a more effective set of standards by the Council, a high-level unit should be established as a permanent part of the Executive Branch to apply those guideposts to particular important industries, by assembling and analyzing data from both government and nongovernment sources on prices, productivity, output, inputs, wages and incomes at both the aggregate and industry levels. Such a Price-Productivity-Income Office (PPI Office) could very appropriately be made part of the new department proposed by the President to combine the Labor and Commerce Departments. It should operate directly under the Secretary.

In its activities with respect to particular industries, the PPI Office could be assisted by industry-wide PPI boards composed of representatives of labor, management, and consumers. The PPI Office and the PPI boards, with respect to particular wage and price movements which may endanger the national economic security, should be authorized to hold fact-finding hearings and make recommendations concerning wage-price behavior in the public interest.

Recommendations should be made for stimulating the supply of services which would help to keep prices stable (medical care, for example). The construction and transportation industries are vital to the public interest but are characterized by inadequate data, rising costs, and disorganization.

The Government should act as catalyst to indirectly prevent or minimize price increases in critical sectors such as medical care, transportation, and construction. The catalytic measures on the supply side might include, for example, additional scholarships for the training of medical personnel, reform of apprenticeship rules, and long-term projections of demand and resource requirements.

Government agencies should push rapidly ahead with the development and regular publication of industry data on output, productivity, prices, capital, labor, and incomes.

Measures to raise market efficiency should receive great emphasis. The following activities are likely to yield high dividends:

(*a*) To maintain, improve, and expand manpower training and development programs;

(*b*) To push measures to eliminate inequality of economic opportunity, for example, as related to union membership and apprenticeship training, hiring and promotion by employers, and the education of youth in low income neighborhoods; and

(*c*) To promote international trade and free competition.

The foregoing represents longer-run and more permanent revisions needed to cope with the wage-price problem in our dynamic economy. For the short-run, the Government must assume a more aggressive role within the less-structured framework that now exists. The spotlight of publicity

should seek out excessive wage and price increases promptly. Furthermore, attention should not be limited to increases. Failure to decrease prices in many cases can be just as out of tune with the public interest. And such cases should be sharply within the focus of an invigorated guideline program.

In certain sectors of the economy strongly influenced by government demand, public expenditures can be tailored to ease stresses that are revealed. In public policy we need to be better able to decide priorities of public expenditure to better serve this purpose. In other circumstances, the government may be able to increase supply on a short-term basis as in the case perhaps of some categories of medical technicians. Finally, the Joint Economic Committee is fully cognizant of the importance of wage-price stability to our economic welfare and will stand ready to conduct its own inquiry should circumstances warrant.

MAINTAINING COMPETITION[8]

However much private enterprises are exhorted to conduct their affairs in accordance with wage-price precepts, achievement of price stability in an economy operating at or near capacity is impossible without effective competition. And without vigorous antitrust enforcement industrial markets will not long remain competitive. To underscore this duality—the vital role of competition and the necessity of government antitrust enforcement—is only to repeat what this committee has often said before and, indeed, what, as in its report this year, the Council itself spoke of in clear unequivocal terms. In fact, it has become a kind of annual ritual to stress the importance of preserving competition through antitrust activity.

Antitrust must be assigned a central role in national economic policy of no less significance than monetary and fiscal policy.

It is an economic fact of life that many vital industries in the American economy are now characterized by a high degree of concentration, with a few large firms accounting for most of the output. Sellers in these oligopolistic industries possess substantial power over price which they can exercise in a manner inconsistent with the larger public interest in achieving rapid economic growth with relative overall price stability. By reducing or inhibiting concentration in such industries and increasing the role of market forces, antitrust can materially complement other public economic policies. But if antitrust enforcement is to play such a role, greater vigor and more imagination are required, for, in recent years, far too little significant action has been taken. While price-fixing, bid rigging, and other forms of overt collusion have often been prosecuted by Federal agencies, too few cases have been brought to stem the merger tide and virtually nothing of consequence has been done to reduce the high levels of concentration in oligopolistic industries

With nearly 2,000 mergers taking place annually—and with fewer than one percent being challenged by the Department of Justice and the Federal Trade Commission—it is hardly surprising that the economy is steadily becoming more concentrated. Data published late last year by the Senate Antitrust and Monopoly Subcommittee showed

[8] See supplementary views of Representative Patman, p. 40.

that in 1963 a mere 200 companies accounted for 41 percent of value-added by manufacture—up substantially from 30 percent in 1947. Even in industries already highly concentrated—autos, to cite just one example—mergers and other factors continue to reduce the number of active competitors. Given also the powerful influence of conglomerate (diversification) mergers, the likelihood—*absent strong antitrust intervention*—is that concentration will increase and that the number of firms with substantial discretionary pricing power will rise sharply. If the public is to be protected under these circumstances, the only answer—and it is an unappealing one to those of us who are strong proponents of a free enterprise system—may be some sort of statutory price-wage surveillance and, perhaps, actual controls.

Against this backdrop, the vital role of antitrust—as a means of achieving and preserving competition so that principal reliance can legitimately be placed on the market to keep prices and wages in rough conformance with changes in productivity—becomes strikingly apparent. Of course, the maintenance of competition calls for more than just antitrust enforcement: government regulation must be shaped to encourage rather than frustrate competition, procurement practices must not have the effect of promoting monopoly, and other public policies must be continuously appraised with the overriding objective of further competition. But in the last analysis antitrust enforcement must assume the primary role in increasing the competitive tone of the economy. And without a highly competitive economy, it may be impossible—without distasteful Government controls—to achieve a rapid rate of economic growth without serious and unacceptable inflation. This is why we think a more aggressive and more comprehensive program of antitrust enforcement is not only needed but is crucially related to the goals of the Employment Act.

EMPLOYMENT AND HUMAN RESOURCES

Human resources are our Nation's greatest productive asset. In the years ahead the demand for investment in human resources will expand rapidly, but ultimately benefits will greatly outweigh costs. The pace of investment must be as fast as the availability of resources permits.

Since 1961, great strides have been made in providing a more favorable environment for the productive expression of our people's abilities. The data on unemployment and poverty testify to these developments: The unemployment rate in 1966 was 3.9 percent, its lowest yearly average since 1953. The number of unemployed persons has fallen from 4.8 million in 1961 to 3.0 million in 1966, while the level of employment has increased by more than 10 percent. Moreover, the incidence of poverty has declined from 21 percent of the population in 1961 to 17 percent in 1965.

But much remains to be done, especially since the advance of a modern economy leaves the skills of many persons obsolete. The unemployment rate among nonwhite workers declined to 7.5 percent for the year 1966. However, the seasonally adjusted unemployment rate for nonwhite workers was as low as 7.0 percent in January and February and, if anything, it deteriorated somewhat during the course of the year, reaching 8.2 percent in August, from which it declined to 7.6 percent in December.

A second group which continues to be troubled by extremely high unemployment rates is our young people. The unemployment rate for workers age 14–19 was 12.0 percent in 1966. This is admittedly lower than the 15.6 percent of 1963, but it is still far too high. The unemployment rates among Negro teenagers are very high: 31 percent in the case of teenage girls and 21 percent among the boys. Enforced idleness does untold harm to the future happiness and productivity and self-fulfillment of these young people. Whatever is now being done is not enough. The benefits from providing useful pursuits for these young, far outweigh the costs.

The problems tend to be concentrated in urban ghettos and in isolated rural areas. A Labor Department study of "Poverty Areas in Our Major Cities" reported that in March 1966 the overall unemployment rate in the poverty areas of standard metropolitan areas was 7½ percent. This was double the rate in nonpoverty portions of these metropolitan areas. The proportion of family heads who were not in the labor force also was much higher in the poverty areas.

Poverty is concentrated both by race as well as by location, and to a certain extent by occupation. In 1965, more than 45 percent of all nonwhite persons were poor, according to the definition formulated by the Department of Health, Education, and Welfare. About 27 percent of all persons living on farms were considered poor.

The basic ingredient for effectively utilizing our manpower resources and for retraining is to maintain rapid economic growth. The growth rate in the output of goods and services must at least equal the percentage increase in the labor force (adjusted for changes in hours worked per worker) plus the rate of increase in output per manhour (labor productivity). For the unemployment rate to fall, output must rise faster than the increase in productivity and the increase in hours offered for work.

Moreover, the great majority of worker training and retraining in this country is done by private industry. When times are prosperous, private industry strives to train inexperienced members of the labor force and even the so-called "structurally unemployed". Our experience provides ample testimony to this. During World War II, the unemployment rate was less than 2 percent for three years; and during the Korean war period (1951–53) it was approximately 3 percent. This experience strongly indicates that a large part of the present number of unemployed workers and potential workers (not even in the labor force) can make a useful contribution if there is sufficient overall demand.

As the output of the economy approaches its potential, it is only logical that our emphasis should shift from a primary reliance on measures to further stimulate aggregate demand to measures calculated to raise the employability and productivity of our people, and to improve the functioning of our resource and product markets. It should be emphasized that these are dual strategies—maintaining expanding aggregate demand and structural measures aimed at training and retraining manpower and at improving market efficiency. Even though there is now great need for economy in government because of the Vietnam conflict, this is no time to reduce our efforts

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to provide new opportunity for the unemployed and the underemployed. Indeed, we should intensify these efforts.

Our public manpower programs are already providing valuable assistance. The Manpower Development and Training Program has had a very significant impact, although the program is modest in relation to the problem. In calendar year 1966, 230,000 persons were enrolled; and since its inception in 1962 the MDTA program has provided opportunities for 613,000 persons. But the 230,000 persons affected by the program in 1966 constituted only a small fraction (about 6 percent) of the total number of unemployed persons (approximately 3 million) plus the estimated one-half to 1 million *potential* workers who were not even counted as unemployed. Much more remains to be done.

Other efforts by the Federal Government to provide training and retraining opportunities include the Job Corps, Neighborhood Youth Corps, Work Experience, Adult Work Program, and the Special Impact Program. These programs, aimed wholly at benefiting the disadvantaged, aided more than 300,000 youths in 1966 through the Neighborhood Youth Corps and more than 60,000 of the most disadvantaged youth through the Job Corps.

The committee wishes to emphasize that these investments make sound economic sense. Studies by the Department of Labor indicate that funds invested in structurally unemployed workers are returned in earnings within 2 years; and within 4 years the Government recovers its investment through increased taxes. In other words, it would actually cost far more not to make the investment than to make it. In addition, there is the immeasurable human dividend.

The Joint Economic Committee has just completed a lengthy study of the economic effects of Federal Government programs which invest in our human resources.[9] Statements received from the Office of Economic Opportunity and the Department of Labor give very encouraging results from their initial program studies. The Office of Economic Opportunity, in an abbreviated cost-benefit analysis of the Job Corps program, showed that the incremental earnings of program graduates would equal the cost of the training in about 5 years. This analysis only indicates the return in increased earnings to the individual.

A study for the Labor Department, focusing on workers retrained in programs under the Manpower Development and Training Act, found that benefits accruing to the Government and the economy were considerably greater than for the individual. Reductions in welfare benefits and other payments and increases in tax receipts were estimated to yield to the Government almost $8,000 in the first 10 years after training; and increased production and income were estimated to benefit the economy by nearly $30,000 in this 10-year period.

It should be stressed that these conclusions are tentative and the initial studies are subject to many shortcomings. The Joint Economic Committee study discusses at length some of the problems involved in making such estimates. However, it is clear that expenditures for these programs are extremely worthwhile economically, and are in

[9] "Federal Programs for the Development of Human Resources," a study prepared for the Subcommittee on Economic Progress of the Joint Economic Committee, 1966.

fact profitable for the Government, let alone the enhancement in human values that they make possible.

Training needs will expand rapidly in the decade ahead. The study entitled "U.S. Economic Growth to 1975: Potentials and Problems," prepared by the staff of the Joint Economic Committee, indicated that our labor force will expand from a level of about 80 million in 1966, to 86.4 million in 1970 and 93.6 million in 1975. In this period, the labor force will expand 1.8 percent annually compared to the actual rate of 1.3 percent from 1948 to 1964.[10] The study goes on to point out that a * * * "future economic choice involves the Nation's policy reaction to the growing potential productive capacity, particularly as indicated by the rising labor force age group * * * the labor force is projected to grow at a much faster rate during the coming decade than in recent years; the numbers of those in the 18 to 24 age group, whose unemployment rates have been much above average, are anticipated to increase at double the national average."[11]

Besides the expansion in the size of the labor force, there are other factors that indicate the great magnitude of the training and retraining job ahead. First, the demand for unskilled and semiskilled labor is more sensitive to the rate of growth in the economy than to the level of output. Particularly in the last few years, actual output has been expanding more rapidly than potential output, with the result that the rate of growth in demand for unskilled and semiskilled labor has been far above the long-run rate of increase. In other words, when firms have a chance, they will tend to phase out the use of some unskilled labor in favor of technologically more advanced methods of production.

Second, the American worker will need to accept the idea of continuous education throughout his lifetime. Gone are the days when the production worker may bid farewell to studying at the age of 16. Moreover, our institutions must also adjust to relatively recent facts about our industrial life. Mechanisms should be found whereby those with skills and understanding may impart their know-how to others. Through organization and planning, it should be possible to enlist many part-time teachers and practical instructors.

A recent study published by this committee's Subcommittee on Economic Progress significantly states:

> Despite a projected doubling by 1970 of the number of persons to be trained annually under the Manpower Development and Training Act, these programs will provide for considerably less than 1 percent of the labor force.
>
> * * * * *
>
> It is unlikely that even a doubling of MDTA training, as projected for 1970, would be enough to meet these needs for sustaining our high employment economy. Only if the private sector increases greatly the volume and diversity of its training activities, so as to reach many of the long-term unemployed, the underemployed, and new entrants into the work force, as well as present workers with low skills, is

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[10] "U.S. Economic Growth to 1975: Potentials and Problems," a study prepared for the Subcommittee on Economic Progress of the Joint Economic Committee, 1966, p. 11.

[11] *Ibid.*, p. 32.

> there any likelihood that increases in the supply of trained workers will keep pace with the potential demand for them. A sufficiently rapid increase in private training probably could be achieved only if we offered substantial new incentives through the tax system or otherwise. Whether or not such measures are taken to enlarge private efforts, a major increase in public training programs appears to be urgently needed.[12]

In the area of formal education, equality of opportunity is necessary in order that there may be equal job opportunities. However, such is not now the case. In March of 1966, only 54 percent of all nonwhite persons age 20–24 had completed 4 years of high school or more, compared with 78 percent in the case of white persons of the same age. By whatever means necessary, for example improved curricula and counseling, the Negro worker is entitled to the opportunity to equip himself for today's highly demanding economy.

The Nation must assume the difficult task of establishing priorities in its program of investing in human beings. The study of "Federal Programs for the Development of Human Resources" by the Subcommittee on Economic Progress states the following:

> There are persuasive economic reasons as well as humanitarian reasons, for expanding further—and substantially—our investment in human capital. As with any other type of investment, this can be done effectively and efficiently only on the basis of systematic choices among alternative possibilities. A prudent allocation of limited resources, one that will yield the greatest potential returns, requires analysis of many promising objectives and selection of the best * * * (p. 5).

The main obstacle to increasing emphasis on more investment in human resources is the shortage of qualified personnel to run the programs, particularly in the occupations of teaching, counseling, and administration. The committee recommends that there be a careful study of the present and future availability of such highly qualified persons, and that priorities be established within the Federal Government so that its various programs will be in accordance with the optimum use of these teaching and administrative resources.

During the past year, the committee's Subcommittee on Economic Progress conducted hearings and issued a report on "Automation and Technology in Education." The subcommittee concluded that the tremendous technical know-how of our society must be directed toward solving problems in this area of great social need. (p. 10.)

The subcommittee felt that one area of education where the application of modern technology seems particularly promising is adult education. It observed that illiteracy is a major drag on our economic progress and a heavy expense.

[12] "Federal Programs for the Development of Human Resources," *op. cit.*, pp. 51–52.

INCOME MAINTENANCE

Income maintenance programs to care for families whose income is limited by age, infirmity, discrimination, poor education, or other disability are receiving growing recognition as a public as well as a private responsibility.

Transfers of money from higher income families to lower income families and from those with current earning power to those whose earning power is limited through no fault of their own is fast approaching one-tenth of the total of the Nation's output per year. These programs are predominantly public, but there are, in addition, many private programs, most of which enjoy substantial tax benefits to assist them.

In recent years, many questions have been raised about this system of income maintenance, with many contending that the system is ill coordinated, capricious in its effects, inefficient, costly to administer, arbitrary in its standards for deciding who is to benefit, and, in general, interferes with efficient resource allocation and hence reduces the overall efficiency of our economy.

The committee hopes that the study now in progress by our Subcommittee on Fiscal Policy will result in a new set of standards or criteria for judging measures for income maintenance that will be more equitable, efficient, coordinated and flexible than the present morass of inadequate and often irrevelant programs. In the meantime, it is altogether too clear that the aged who are under social security cannot wait for the completion of studies for adequate pensions.

We welcome, therefore, the proposals of the Administration for substantial increases in benefits under the Social Security programs and we recommend that the Congress take early action on these proposals, fully recognizing that further revisions and alterations may be necessary in the longer run.

INTERNATIONAL TRADE AND FINANCE[13]

Leadership is the proper role for the United States in matters of international trade and finance; our need to adjust to external events is at least matched by the need of others to pay heed and accommodate to what happens here. Any weakening of the United States economy is harmful to other countries.

The United States must reckon on accepting our responsibilities of leadership implicit in the size of the economy. The income-sensitivity of U.S. imports has been demonstrated in 1966, rather too strongly in favor of our industrial trading partners; the hazards of any weakening of the U.S. economy include the possibility of serious damage to world trade, which we should do all in our power to avoid. Furthermore, the increasingly strong and complex links between financial markets here and abroad require that we should explain our monetary policies more adequately, to others as well as to our own citizens, and try to improve their coordination with other countries' policies.

To cite the state of the U.S. balance of payments as the excuse for restrictive monetary policies that are inappropriate to domestic needs

[13] See supplementary views of Senator Herman E. Talmadge, p. 45.

See also, supplementary views of Senator Symington, p. 47.

is to misrepresent the cause of our problems and apply a damaging false cure. Especially as interpreted in terms of interest rate movements, monetary stringency does not exert a direct influence on many component parts of our international accounts. It is likely to increase the U.S. trade surplus only to the extent that it deflates the domestic economy. It has no impact on government transactions. And its net effect on investment flows is uncertain, for direct investments are not highly sensitive to interest rate changes. Of course many types of financial flows are sensitive to interest rates and, in increasing degree, to interest rate differentials. The monetary policies of the United States are certainly not completely autonomous. What we do in monetary affairs elicits a response abroad even if we do not undertake formal or informal negotiation on the subject.

The fact is that other countries cannot get too far out of step with us. The argument that lower interest rates in the United States will provoke an outward rush of "hot money" is somewhat of an exaggeration. There will probably be some such outflow, but it can be managed if we view it in proper perspective as a temporary adjustment.

For this reason, the Joint Economic Committee, which has on many other occasions placed on record its opposition to domestic policies of extreme monetary stringency, commends the initiative of the finance ministers of the United States and several European countries in seeking progressive reductions of interest rates throughout the free world.

We must be sure that our policies to improve our balance of payments position are determined by their expected effect on the flow of real resources and not in reflex action to the deficit.

Each one of the President's proposals for improving the U.S. balance of payments in 1967 has individual merit. Collectively, they demonstrate to the world that the United States is determined to maintain the international value of the dollar by preventing over-rapid accumulation of foreign dollar holdings. But there is no reckoning of the longer-run cost, to us and to world trade. There is a need to devise a firmer institutional basis for our policies, for example, with respect to an acceptable rate of private U.S. foreign investment.

While short-run localized retreats from policies of free multilateral trade and payments may be needed in our present condition, we must not forget our main objective. Trade liberalization—the main plank of U.S. commercial policy since the end of World War II—has been a colossal economic and political success and no firm case has been or can be made that it is not still in the general national interest of the United States. We should not give up these policies of multilateral trade and payments, merely because short-term expedients are helpful in meeting current problems.

The common characteristic of these programs, such as the Interest Equalization Tax and the promotion of tourism in the United States, is their specificity. They are presently necessary and they are, in future, easily changeable. But they do not say to the world what needs to be said: that the international position of the United States is manageable and sustainable, that the United States has made its full contribution to the adjustment process and that, barring a huge

extension of the foreign exchange costs for Vietnam, the United States is able to maintain its adherence to the longer run aim of free international exchange.

The short-term concern of the United States with attaining a vaguely defined state called "equilibrium" in international payments has tended to push U.S. commercial policy into the background. But the maintenance of growth and of liberal conditions in world trade is a vital concern of the United States. A successful outcome of the Kennedy Round negotiations is the immediate challenge in the pursuit of that policy. Future steps should include negotiations to reduce nontariff barriers.

The President's recent action, in terminating the escape clause action on watch movements and the special tariff on imported plate glass, is a welcome token of our interest in lowering trade barriers. By demonstrating in this way our good intent in the current negotiations, the United States is presently making the best contribution to their successful completion. In that event, the way will be open for the further pursuit of nondiscriminatory policies negotiated within the existing framework of the General Agreement on Tariffs and Trade. Moreover, our policies are adaptable, without great change, to expanding our trading relations with Eastern Europe, as the President also recommends.

It would be unwise, however, to ignore the significant shift of bargaining methods implicit in the prearranged joint positions of the members of the European Common Market. This would be of little concern if the exercise of collective strength were applied in the direction of enlarging world trade. There are, however, strains suggesting the objective of economic self-sufficiency in the Common Market's policies. The economic allocation of resources does not appear to be a significant determinant of their agricultural proposals, nor even to be a target toward which they are aiming. The existence of ex-colonial associates even creates discrimination among less-developed countries in supplying the primary imports of the members.

Nationalistic restrictions are threatened in other activities than commodity trade. It is to be hoped that the United States will be able, by such measures as the Foreign Investors Tax Act of 1966, to induce foreign capital toward the U.S. market and persuade other countries of the merit of equal access to their own markets.

In some degree, restrictions are both the result of inadequate capacity to adjust to international movements and the cause of future inability to make adjustment. The argument for restrictionism is thus both self-justifying and destructive. For example, the U.S. investment in industries or banks or commercial agencies in other countries is valuable to the country of domicile. The United States should try to persuade other countries that crass discriminatory legislation aimed at their elimination is a self-imposed damage, and we should in no circumstance undertake to retaliate by matching our partners' folly.

The United States should make plain that its investment abroad is intended to yield gain to both owner and user. Furthermore, the adjustment process must be developed by some agreed arrangement whereby movements of long-term capital are either accommodated within the existing system or controlled in such a fashion as to avoid a progressively increasing strain on the system.

One additional requirement, whose urgency the Joint Economic Committee has often stressed in past years, is the reform of the international monetary system. That urgency is all the greater now, as the role of gold in international monetary affairs becomes increasingly grotesque and disturbing, and as the policy of at least one foreign central bank is directed to the reduction of the aggregate of world monetary reserves. The sustainability of the monetary system built on Bretton Woods foundations requires that other countries should not exercise monetary blackmail on reserve currency countries such as the United States.

The international monetary system is neither in imminent danger of breakdown, nor is it at present failing to provide the basis for satisfactory settlement. But the symptoms of strain are evident. The behavior of gold is only one manifestation of nervousness. A more immediate threat is the widespread adoption of deflationary policies as countries mistakenly identify the nature of international imbalances and indulge in emulative policies to lure short-term capital. The recent informal compact to reduce international interest rates is gratifying evidence that the danger is recognized. But it is worth noting that even unusually high rates of return on fiduciary assets did not succeed last year in cooling the gold fever.

Three things are necessary: (1) that the United States should further with all its influence the hesitant progress of the past year toward the institution of a new international reserve asset; (2) that the United States should recognize that the monetary role of gold is exclusively international and official, and should remove the anachronistic encumbrance of a statutory gold reserve against its domestic note issue; and (3) that the United States should move toward collaborative arrangements to reduce the long-term influence of gold in monetary affairs.

As to the first, the Secretary of the Treasury and his negotiators merit warm appreciation and support for their steadfast efforts to reach agreement on international monetary reform and for their forthright rejection of diversionary proposals to raise the price of gold. The cessation of growth of world monetary reserves outside of the IMF in the past two years has brought even more compellingly to the forefront the need for outright rather than patchwork reform. Indeed, if allowance is made for the activation of borrowing rights to meet the sterling crisis, there was a net reduction over the course of 1966. In due course the growth of trade will be inevitably hampered by inadequate liquidity, not to mention the restrictionism that will accompany this condition. Since there is no evidently available alternative to the dollar in world trade, the function of the dollar as an official reserve must be either supported or supplemented.

In the meantime, however, the United States must, perforce, concede an international role to gold. So long as we are able, in an increasingly nationalistic world, to pursue universality as a key principle in our international negotiating aims, we should make available for international use the entirety of our gold reserves. Their sole domestic function is, indeed, the perverse one of lending support to the illusion that the quality of the credit dollar as money depends on something other than the quality of the management. For this purpose, the Joint Economic Committee again counsels the removal of the gold cover requirement from the note issue.

On the third issue, the future role of gold, the evidence of 1966 ought to convince serious observers that the modern world has got to come to grips with the reality and necessity of some form of international credit as an eventual substitute. It is bad enough that there was only a tiny increment of gold to world monetary reserves in 1965, and none at all in 1966. It is worse that speculative hoarding, typical of backward and unstable societies, should have extended to the citizens of advanced industrial countries. It is next to fatal when even one or two central bankers or government leaders exhibit regressive psychological tendencies, appropriate to the days of commodity money or the days when convertibility of bank-notes into a super-commodity was the sole test of confidence. Everyone knows that the supply of this golden super-commodity is going to be subject to spasmodic withdrawals and supplements from hoarding, and is going to be inadequate in relation to expanding world trade and future demand, even from official sources. It is clear, moreover, that the quality of any means of payment depends on its maintained power to purchase goods, not gold.

On these grounds the United States dollar is peerless. It has been and is the major unit of account in international settlement. It is today and will probably remain the major instrument of commercial dealings. By contrast, gold is performing a role of declining utility in world monetary arrangements.

The United States and the other industrial countries have the strongest motivation to reduce the disturbance in international financial markets originating in persistent gold speculation and hoarding. For the same reason, the United States and the other industrial countries have an active interest in successful international monetary reform which would reduce the danger of sudden liquidations of reserve-currency holdings, and preserve the stability of supply of international liquidity.

These measures may appear to be the concern mainly of the advanced industrial countries, as a means of ensuring the growth of their trade with each other. Actually they are of vital importance to the growing trade of less developed countries. Moreover, the United States should not hesitate to remind other developed nations of one source of their current good fortune that had its origin twenty years ago in the Marshall Plan. It touched the springs of energy that generated the growth of the receiving countries. We must make sure that our own economic vision has not shortened with the years and that others who can help will see in the aspirations of the developing nations something of the distressful desire for reconstruction that they themselves experienced after World War II.

Finally, if other industrial nations, specifically in Western Europe, continue stubbornly to resist the introduction of a new reserve medium that would stabilize the role of credit in official international settlements, and to block the trade liberalization that is the aim of the Kennedy Round, there must be no illusions about the consequences. It would be hard to prevent a retreat from multilateralism into regionalism. This would do enormous damage to the world economy, but the United States would suffer less than others. We should be forced, reluctantly, to protect our interests by joining with those countries that are willing to operate their currencies on a dollar reserve basis and forming with them a new bloc of liberalized trade.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE PATMAN

The committee points out in this Joint Economic Report that the Federal Reserve committed the Nation to a "monetary policy of restraint * * * involving tight money and higher interest rates." The committee also points out that the "extremely high interest rates of the past year have had a dislocative, disruptive, and inequitable effect on the economy" and that "vigilance is required to repair the damage already done and to avoid additional hardship." Finally, the committee points out that "the action of the Federal Reserve System during 1966 severely restricted the money supply" and that "previously, restrictions helped cause recessions, a factor that leads many economists to anticipate further depressive effects this year from our monetary policy."

These observations are correct. I agree fully with the analysis reached by my colleagues on the committee about the activities of the Federal Reserve Board since December 1965. However, I find that the corrective action the committee calls for does not go far enough. The committee concludes in its section on monetary policy that "Because of the vital importance of monetary policy, the committee urges the Federal Reserve System to take full cognizance of the role expected of it."

This recommendation implicitly lends credence to the myth being perpetrated by the Federal Reserve Board and others that the Federal Reserve Board and System are somehow independent of their creator—the Congress—as well as the Executive, and the American people. If, as I agree, the facts set forth and conclusions drawn therefrom are correct, it would appear that the Joint Economic Committee has a greater responsibility to the Congress and the people to recommend something more forceful than merely indicating the hope that the Federal Reserve Board will somehow or other mend its ways.

It would appear to me that the Congress must enact necessary institutional reforms if the great harm done by the traditional Federal Reserve's tight money and high interest rate bias is to be corrected. There is no doubt whatever that the Congress not only has the constitutional authority under article I, section 8(5), of the U.S. Constitution, but also the obligation to do this.

I fully agree with my distinguished colleagues on the Joint Economic Committee who argue in this report that many economic developments during 1966, particularly those policies which led to the institution of the highest interest rates this country has known in 40 years, are matters of great national concern. I also agree in large part with the policy recommendations proposed in the report. My main point of departure is that the report does not fully face up to the problems caused by serious defects in the institutions of Government necessary to assure realization of the policy goals proposed by the Executive and the Congress.

The Employment Act of 1946 which created the Joint Economic Committee clearly stated that it was the policy of the Federal Government to "*coordinate* and utilize all its plans, functions, and resources * * * to promote maximum employment, production and purchasing power." [Emphasis added.] The responsibility given the Joint Economic Committee under the Employment Act goes beyond the point of merely analyzing the current economic situation. This responsibility requires, as the Joint Economic Committee has done so well in so many instances in the past, that the committee advise the Congress and make policy recommendations concerning the economic affairs of the Federal Government and the Nation.

In this instance, as regards monetary policy in general and the Federal Reserve Board specifically, I have always maintained, based on close study of the law and legislative history, that the so-called "independence" of the Federal Reserve System is a legal fiction, and that their seized independence constitutes no independence at all. Given the congressional directive, as stated in the Employment Act of 1946—the Federal Government shall coordinate all of its activities to "promote maximum employment, production and purchasing power" and given the obvious fact that at least in its December 1965 action the Federal Reserve did anything but coordinate its activities with the rest of the Federal Government—I feel that it is this committee's duty and responsibility to consider this problem and to recommend changes and improvements necessary to achieve the great goals of the Employment Act of 1946.

The matter of Federal Reserve reform has been studied in recent years by the Domestic Finance Subcommittee of the House Committee on Banking and Currency, of which I have the honor to be chairman, by independent research groups such as the Commission on Money and Credit and by many individual scholars and academicians. There is general agreement—except of course by those who have a vested interest in the matter—that certain minimum changes are necessary in order to assure proper coordination of monetary policy with other Federal policies in order to provide the best economic atmosphere in which to achieve the goals of the Employment Act of 1946. These include, among others, the following reforms:

A. *To emphasize the public character of the Federal Reserve:*

1. Provide for the retirement of the Federal Reserve stock.
2. Vest all power to conduct open market operations in the Federal Reserve Board.

B. *To increase the effectiveness of monetary policy by assuring the recruitment of an outstanding Federal Reserve Board and an adequate response to advances in economic knowledge:*

1. Remove the present requirement that the President, in selecting Governors of the Federal Reserve Board "* * * shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country." Instead require only that the Governors be men of integrity devoted to the public interest.
2. Reduce to five the number of Governors of the Federal Reserve Board.
3. Reduce to 5 years the terms of office of the Governors and allow for reappointment.

4. Make the term of the Chairman of the Board of Governors coterminous with that of the President.

5. Raise the salaries of the Governors.

C. *To insure public control over the expenditures of public monies:*

1. Provide for a public audit by the Comptroller General of all expenditures by the Federal Reserve Board and the Reserve banks.

2. Provide for paying into the Treasury as miscellaneous receipts all capital gains and interest received by the Federal Reserve from U.S. Government securities.

3. Authorize appropriations by the Congress for the expenses of the Federal Reserve banks and the Federal Reserve Board.

D. *To provide statutory guidelines for monetary policy and assure coordination of all of the Government's economic policies in achieving the goals of the Employment Act of 1946.*

1. Require that the President set forth in his periodic economic reports, in conjunction with his recommendations on fiscal and debt management policy, guidelines concerning monetary policy, domestic, and foreign—including the growth of the money supply, as defined by him—necessary to attain the goals of maximum employment, production, and purchasing power of the Employment Act of 1946.

2. Express the sense of Congress that the Federal Reserve operate in the open market so as to facilitate the achievement of the President's monetary policy—and require that the Federal Reserve, if its monetary views and actions diverge from those recommended by the President, file with the President and the Congress a statement of reasons for its divergence, in a form like the President's Economic Report.

E. *To allow for greater specialization in performing the monetary control function:*

Permit the Federal Reserve Board to concentrate on monetary policy by transferring its present bank supervisory functions to the Comptroller of the Currency, the FDIC, or, alternatively, to a newly created Federal Banking authority.

The above recommendations were unanimously adopted by the Democratic members of the Domestic Finance Subcommittee of the 88th Congress. They were arrived at after detailed hearings conducted by this subcommittee in conjunction with the fiftieth anniversary of the Federal Reserve System. These recommendations were valid then and they are today. They are included in H.R. 11. I would hope that the members of the Joint Economic Committee would consider and support this very necessary legislation.

Current monetary policy of the Federal Reserve Board gives clear evidence to the fact that the Board committed a horrible error in December 1965 and they now are in the process of attempting to correct the situation. On February 28, 1967, the Federal Reserve announced a reduction in reserve requirements from 4 percent to 3 percent against savings deposits. This move is most welcome because it should have the positive effect of reducing some of the inequities and hardships which the December 1965 action created by providing additional bank reserves and loan funds. However, even in this instance the Federal Reserve Board is to be criticized because it could have accomplished the same goal by purchase of securities through the Federal Open Market Committee and by so doing, at an assumed 4-percent rate, saved the taxpayers $34 million a year in interest costs on the public debt.

I concur with the analysis of the Joint Economic Committee in its section on monetary policy. Experience with the Federal Reserve Board since the chairmanship of Mr. Martin clearly indicates, however, that the Board has not coordinated its activities with the rest of the Federal Government and that in our modern and complex economy this situation cannot be tolerated. Again, I trust that at the next opportunity the Joint Economic Committee will not, as in this instance, stop short of the goal but will recommend to the Congress appropriate changes in the way in which the Federal Reserve Board and System operate, so that as regards monetary policy there will no longer be violations of the national policies as set forth in the Employment Act of 1946.

It is of the utmost importance to this Nation's welfare that monetary policy be brought into line with the needs of our economy. The tight money policy of the Federal Reserve has brought serious problems to our economy. The housing industry is in a weakened condition, still starved for funds. Small business has been hurt and we are already seeing a worrisome drop-off in the general level of the economy. Clearly this is the harvest of tight money. Unless the Federal Reserve changes its policy promptly and sharply so as to increase the availability of funds and lower the interest rates substantially, this nation, will suffer from increased unemployment and insufficient economic growth. In this period of history, with so much depending on the welfare of the United States, it will be tragic.

With respect to the antitrust policy statement contained in the majority report, I am in full agreement with its conclusions, However, there is great need, in my opinion, for more emphasis on the fact that the pace and intensity of corporate mergers gives cause for serious concern. While the number of corporate mergers is, in itself, disturbing because of the significant increase of economic concentration that it represents, still more disturbing is the fact that in 1966, for the fourth consecutive year, the number of large firms disappearing through corporate mergers increased. In 1966, 98 firms with assets of $10 million or more disappeared through acquisition. The combined assets of all of these firms were in excess of $4 billion. It should be noted that this data, compiled and recently released by the Federal Trade Commission, does *not* include mergers among firms subject to regulation by other Federal agencies, such as banks, railroads, airline and steamship companies, radio and television broadcasting companies, public utilities and others. While final statistics are not yet available for 1966, the 1965 report of the Federal Deposit Insurance Corporation indicates that the resources of all banks acquired during calendar year 1965 were well in excess of $2 billion.

Therefore, my primary concern is not merely in the fact of the number of mergers taking place but lies rather in the fact that substantial and significant competitors are being eliminated. In large measure, the responsibility for these developments and for the unchecked and rising tide of substantial mergers must be laid at the feet of those responsible for the enforcement of our antitrust laws. In the recent opinion of the Supreme Court in the *El Paso Natural*

Gas Company case, decided February 27, 1967, Justice Douglas, speaking for the Court, criticized the Department of Justice for attempting to settle the case in a manner not consistent with the Court's order of divestiture. In a previous decision on the same case, the Supreme Court had ordered that the District Court provide for "divestiture without delay." The Department of Justice, contrary to this order of the Supreme Court, had agreed to a settlement in the case that did not provide for such divestiture. In another but somewhat comparable instance, the Federal Trade Commission recently challenged a significant corporate merger on the grounds that the corporate acquisitions involved effected a "major structural change" in the industries allegedly adversely affected by the merger. However, the Commission settled the case without obtaining divestiture or otherwise restoring the competitive structure of the industry prior to the challenged merger. In my view, these cases are indicative of laxity in the enforcement of our antitrust laws. While I have been heartened by the recent statements of Attorney General Clark with regard to antitrust enforcement activities of the Department of Justice, I believe that we have responsibilities as members of Congress to insure that the antitrust laws are being vigorously enforced. For this reason, I hope that the 90th Congress will devote increased attention to this vital matter.

WRIGHT PATMAN.

SEPARATE VIEWS OF REPRESENTATIVES BOLLING AND REUSS ON FISCAL POLICY

We find much in the Report that is to be commended, particularly its stress on the importance of human resource programs, the problems of income maintenance, the improvement of Social Security benefits, and the ways of dealing with the relationship of costs to prices in a full employment economy.

But we cannot agree with its central thesis: the economy is so weak, and the possibility of a downturn so great, that we cannot afford to raise taxes; but at the same time we should cut expenditures by about the same amount as the Administration proposes to raise taxes.

Admittedly, the portents are clouded. If one examines the leading indicators, he will find that, despite their fascinating aspects as an intellectual exercise, they are not a safe basis for public and private policy. The indicators have frequently proved wrong—two notable times are the 1951–52 period and the second half of 1962. In the earlier instance, the readers of leading economic indicators proclaimed we were in a recession a year or two before the recession actually appeared in 1953–54, for the wrong reasons, and during one of the most rapid expansions in postwar years. Similarly in 1962, despite the earlier lesson, the pundits of the indicator cult had us facing a recession although the Nation immediately set off on one of its faster expansions.

It is well to remember that the indicators of coming economic events always turn bearish as full employment is approached, whether the economy is going to turn down into a new recession or is going to continue at full employment indefinitely. A slowdown from a fast recovery to the long time full-employment rate of growth causes this phenomenon. It has nothing to do, necessarily, with whether we will continue full employment or head into a recession.

Prudence, therefore, dictates that Congress take action against the very real possibility that the Administration will turn out to be right; that is, that the second half of the year will be strongly expansionary. This is not an unreasonable expectation despite the present bearishness. The budget is in substantial deficit even with unemployment under 4 percent, and expenditures are rising at one of the most rapid paces of recent decades. Despite some doubts about monetary policy, it is still true that it is moving in a much easier direction. With monetary and fiscal policy both driving toward economic expansion, it seems the height of folly to assume that these will have no effect on the economy as a whole.

We therefore recommend that the Ways and Means Committee in the House and the Finance Committee in the Senate proceed at once to consider, and report to the respective Houses for enactment, legislation providing for a tax increase along the lines recommended by the Administration. But to satisfy those alarmed by recent bearish economic reports, it should follow the path recommended last year by our Subcommittee on Fiscal Policy, that the tax increase should go into effect *only* after a congressional joint resolution is passed. Alternatively, the legislation could follow earlier recommendations that power be delegated to the President to activate the tax should it, in his judgment, become necessary.

Even if we accept the bearish view of the outlook as spelled out in the report, we could not accept its policy conclusions. If the bearish view is accepted, this is a reasonable basis for opposing the enactment this year of the proposed 6 percent surtax. But if the economy is this soft, then this is a very strong reason for *not* cutting expenditures as the committee report recommends. Certainly we should have learned by this time that a reduction of expenditures has the same economic consequences as an increase in taxation, though experts may debate the relative efficacy of each device. Of course, every year is a good year to cut out waste and foolishness, to eliminate obsolete programs, and to search out instances of overlapping functions. But none of these tasks has ever produced anything like a $5 billion or $6 billion reduction in a single year. In fact, in nine out of the last 13 years, actual expenditures turned out to be as high as or higher than the President's initial estimates; and in the other four years the maximum reduction was only about $1.5 billion—hardly the magnitude that the report suggests is needed.

Furthermore, we cannot think that any such large reductions in expenditures from the President's budget could be achieved without an attack on the parts of the budget which are most socially desirable, and where it would be tragic to make reductions. The war on poverty, the campaign for improving education, the battle against air and water pollution, the attack on the low level of medical care, particularly for the poor and the aged, are simply not the kind of programs where it is desirable to achieve reductions in current expenditures, for it will only *increase* expenditures later by a more than proportionate amount.

There are those who believe that the investment tax credit suspension this year threatens to create what is called an "air pocket" in the last half of this year, as business firms wait for January 1, 1968, for the reinstitution of the tax credit for investments. We are not at all sure that this is a valid argument, but to resolve the question once and for all it would seem practical for Congress to either (1) permanently repeal now the investment tax credit, thus eliminating all expectations for the future, or (2) reinstitute it as soon as practicable, perhaps on July 1, accompanied by an increase in the corporate income tax sufficient to compensate for the revenue loss resulting from the investment tax credit.

In any case, we reiterate the high priority that should be given to this committee's repeated recommendations to reform our national tax structure and to plug the loopholes that allow so many, particularly in the middle and upper income brackets, to escape their due share of the national tax burden. Such a reform would yield billions, with the advantage that it would increase the equity of our tax structure and in the long run make better economics than repeated resort to the tax surcharge, which perpetuates the present inequities in the tax structure. Most of the funds that would be tapped by plugging the loopholes in the law would come from income flows where there is now over-saving, and not from consumption, and hence would bring about a better balance between incomes, savings, and investment at full employment. Even more likely, some of the increased revenue would come out of income flows that have been going abroad, thereby contributing to the deficit in the balance of payments. Some of the candidates for inclusion in this program of tax reform are mentioned in the President's Economic Report. We will not comment on particular ones at this point. We only ask for an early message to the Congress from the President, specifying a program for this year, together with immediate and effective action by the tax-writing committees of the Congress.

We commend the majority report for its emphasis on aiming for a rate of unemployment below 4 percent, and a rate of growth exceeding the 4 percent with which the Administration seems content.

We believe that the program of the Joint Economic Committee, if amended in the way suggested in these separate views, would go far toward insuring achievement of the improved economic goals which the committee recommends.

The economic programs, as amended in these separate views, would bring the budget into balance or surplus at around 4 percent unemployment, contribute to an easier credit policy, bring better balance between consumption, savings, and investment, and provide a distribution of income more consistent with continuous full employment of our productive resources.

RICHARD BOLLING.
HENRY S. REUSS.

SUPPLEMENTARY VIEWS OF SENATOR TALMADGE

While I am in complete agreement with the imperative laid down by the Joint Economic Committee with regard to United States fiscal policy in 1967, it is my feeling that this statement should be carried one very important step further.

Said the committee:

> With the Vietnam war expected to absorb about $22 billion out of our national output, and the deficit in the Federal Budget growing, it is imperative to reduce all Federal expenditures not absolutely essential to national defense or to economic growth and welfare.

I would add to that in language to this effect, that with worsening balance of payments deficits and the critical drain upon United States gold reserves, it becomes especially imperative to make every effort to reduce the flow of American dollars abroad which come back to us in the form of demands for gold. In short, the strain upon the American economy has become such that we must curtail to some degree our efforts to be policeman, banker and Santa Claus for scores of nations scattered all over the globe.

In this connection, I must dissent from the committee view that the 25 percent minimum gold cover against issued Federal currency is an "encumbrance" and out of step with times. To remove the gold cover would, in my opinion, destroy a very effective instrument for maintaining some semblence of fiscal responsibility in Federal spending. The gold cover is a major safeguard against recklessly permitting Government expenditures, particularly those which channel American dollars into foreign treasuries, from climbing to even more dangerous heights than they already have.

Consider the history of the past 17 years. At the end of 1949, the United States had $24.6 billion in gold stock. Now we have only slightly over $13 billion. Seventeen years ago, the United States owed $7.6 billion abroad. Today, there are foreign obligations, redeemable in gold and held abroad, in the staggering amount of $30.4 billion. The United States has less than $4 billion in free gold with which to meet this obligation.

What has been happening? In sixteen of the past seventeen years, we have had a serious dollar deficit. We have been far out of balance internationally, totalling more than $16 billion in just the past six years. The world has been acquiring more dollars than it cared to keep, and the principal source of these dollars has been the United States Government itself.

United States foreign economic aid, which in far too many instances is tantamount to a giveaway, and our military spending abroad, which has not always been devoted to the best of American interests, are principally responsible for the recurring dollar deficit and resultant gold drain. This spending was responsible for such a loss of gold two years ago that we were told we had to remove the gold cover from Federal Reserve deposits so as to allow us time to get our affairs in order. That action was supposed to be merely a temporary expedient. We were buying time. Now, however, it appears that we have not managed our affairs and the expedient is neither temporary nor, in itself, sufficient.

In rescinding the gold cover requirements against deposit liabilities, we went part of the way. Now we are asked to go all the way and remove the gold cover safeguard completely.

The proper course is not to remove the gold cover, not to fail to heed the warnings that our continued gold losses give us, and not to relax our guard against spending ourselves into inflation.

We cannot halt the drain upon United States gold by refusing to meet our monetary obligations abroad. The way to stop the gold drain is by reducing the size and extent of our foreign obligations in the first instance. We must stop excessive foreign spending.

We should bring some of our troops home from Europe, perhaps about half of the six divisions presently there, the maintenance of which costs about $2.5 billion annually.

We should reassess the entire United States foreign aid program and reduce it to a more manageable and efficient form. It should be limited to meeting the humanitarian needs of our developing allies in the free world, and the aid should be administered on the basis of 100 per cent compulsory acceptance of American goods.

The prime purpose must be to alleviate the dollar deficit and stop the outflow of United States gold. This will never be accomplished if we eliminate the gold cover for, as I have stated, this is the one assured instrument for restraining irresponsible Federal spending, and even it is not doing an adequate job. But removed, it would do no job at all.

HERMAN E. TALMADGE.

SUPPLEMENTARY VIEWS OF SENATOR SYMINGTON

Although I agree with the majority views of the Joint Economic Committee that the objective of monetary and fiscal policy should be sustained economic growth at home and expanding international trade, I do not believe that the report (section on International Trade and Finance) emphasizes sufficiently the importance of maintaining stability in the value of the dollar, and the controlling of our international deficits.

The dollar has two functions, both at home and abroad: a repository of value and a medium of exchange. Continued depreciation of its purchasing power through inflation at home vitiates the first function. Continued deficits in international payments erodes the second. If these tendencies, now prevalent, continue much longer, the growing lack of confidence in the dollar could become a serious matter indeed.

This section of the report does not contain a realistic appraisal of this growing lack of confidence; nor are there any specific recommendations as to how to deal with it.

In the domestic economy, depreciation in the purchasing power of the dollar is an unfair form of taxation, especially punitive to the lower income groups: workers, those with fixed incomes, the aged who depend heavily upon fixed retirement benefits, holders of savings accounts and insurance policies.

I do not believe this matter has yet been probed in sufficient depth to place us in a position to choose among the various contending theories as to how the economy should be "managed." In any case, it is certain that we have not yet found the right mix between budgetary, monetary and tax policy so as to give sustained economic growth at the same time the purchasing power of the dollar is maintained.

The improvements in the balance of payments that were registered in 1965 and 1966 came principally in the private capital accounts. In 1965 there was a withdrawal of United States private credits abroad resulting from the voluntary restraint programs; and in 1966 there was an inflow of foreign capital as a result of higher interest rates. But the basic accounts of the United States in foreign aid, military expenditures, and tourism were unfavorable during this period; and our favorable balance of trade was heavily reduced.

Without the temporary and nonrecurrent movements of private capital, plus some public capital—repayment of debts, advance payments on military contracts, etc.—the balance of payments deficit of the United States would still be in the neighborhood of $3 billion a year; and along with the mounting expenditures in Vietnam, closer to $4 billion a year.

It is a shocking fact that the United States, prosperous and strong though it is, nevertheless finances its foreign aid and military operations abroad on borrowed money; not only money borrowed at home in order to pay for these expenses, but money borrowed abroad in order to obtain the foreign exchange with which to discharge our resulting obligations overseas.

If these borrowings continue, they can only lead to a further lack of acceptability of the dollar in foreign countries; therefore I am convinced there is need for an action program so as to get at the roots of the continuing disequilibrium in our international payments.

The recommendation that we should dispense with the gold reserve requirement for currency in circulation would seem constructive; but it is not a corrective measure. Without the taking of further positive action, it would merely postpone the day of reckoning. In addition it is fair to predict, as was true in 1965 when the gold backing of Federal Reserve deposits was eliminated, that this additional action will probably cause an accelerated withdrawal of gold.

The suggestion by a majority of the committee that a new reserve unit be created to supplement, even displace, the dollar—now the center of the international monetary system—would seem unrealistic at this time.

If other nations are no longer willing to lend money to the United States, or to hold the dollars they earn, why should they do so in indirect fashion; i.e., through the creation of a new reserve currency. There would appear to be an element of self deception in hoping that such a creation would remove the need for the United States to adjust its international accounts. This was substantiated at the most recent meeting of the Group of Ten, when it became evident that those countries were in no hurry to reach agreement on a new reserve currency plan, at least until the United States had corrected its balance of payments deficit.

No government, any more than an individual, can continue to improve its standard of living through borrowing any longer than it is trusted by its lenders.

Concern is expressed about the outcome of the Kennedy Round negotiations; and there is recognition of the difficulties which have arisen during the bargaining incident to those negotiations. But I do not believe proper emphasis has been placed on the importance of achieving reciprocity in agriculture as well as industry.

Agricultural trade constitutes the largest part of our trade surplus with Europe. To acquiesce in European protectionism in the agricultural field, but at the same time agree to a reduction in industrial barriers to trade, is not true reciprocity.

I believe future trade policies should emphasize reciprocity in all trade negotiations, rather than contain an unconditional "most favored nations" entry into our markets. We should bargain in realistic fashion, not only with the six Common Market countries, but also with the seven countries of EFTA, and with Japan and the Eastern European countries. Again, this bargaining should be conducted on the basis of reciprocal trade concessions.

If the United States is to get its financial house in order, the type of dollar outflow expenditures which must be curtailed include such out-of-pocket expenses as the unnecessary military expenditures now characteristic of our policies in Europe and other countries. In addition, we should face up to the fact that our massive dollar program loans to scores of countries, soft loans on a 40 to 50 year repayment basis, are actually grants, with relatively little prospect of repayment.

As to the control of private investments, there is factual information, with which the Council of Economic Advisers agrees, that private investments have been earning income and encouraging exports. In any event, these investments do create income bearing assets.

Attention should again be drawn to the continuation of discriminatory foreign transportation rates that militate against United States exports. This discrimination was brought to the attention of the country over three years ago. Little has been done about it since.

In summary, I believe that the time has come to replace theoretical economic speculation with practical and specific objectives; objectives which approach our financial problems in recognition of past history and on a realistic basis.

STUART SYMINGTON.

MINORITY VIEWS

on the

1967 ANNUAL ECONOMIC REPORT OF THE PRESIDENT

CONTENTS

SUMMARY OF RECOMMENDATIONS

I. Domestic Policy Recommendations

A. Policy for 1967: (1) Recommend that the Federal Reserve increase the money supply at annual rate of 2 to 4 percent; (2) oppose 6-percent tax surcharge in light of the current economic outlook; (3) urge elimination or reduction of Federal expenditures not serving high priority national objectives; (4) support the proposal for earlier restoration of the investment tax credit and studies on whether it should be made permanent; (5) recommend lifting of the 4¼-percent ceiling on Government bonds; (6) urge that participation sales be counted as an increase in the public debt rather than as a reduction in spending; (7) urge study of the effects of Federal credit programs on monetary and debt management policy; (8) reject proposals for establishment of a wage-price-productivity board.

B. Maximum employment without inflation: (1) Endorse Human Investment Act to spur job training by the private sector; (2) support legislation to make permanent the unemployed parent and community work and training programs associated with aid to families with dependent children; (3) urge better coordination of all Government manpower training programs; (4) encourage improvement in the Federal-State employment services; (5) tie retraining for the long-term unemployed to the provision of unemployment insurance; (6) eliminate tax impediments to job mobility and new skill development; (7) urge study of a two-step minimum wage with a Government subsidy to encourage employment of teenagers and other low-skill individuals; (8) study the draft in relation to manpower programs and policies.

C. Longrun policy considerations: (1) Improve economic statistics and develop new and more reliable measures of economic activity, including (a) quarterly revisions in the original GNP forecast; (b) improved Federal budget information system, including quarterly estimates of budgetary receipts and expenditures and longrun budgetary estimates; (c) faster progress in developing a statistical series on job vacancies; (d) a statistical series which measures wealth in the economy; (e) improved regional and State economic accounting; (f) measure and forecast productive capacity in major industries and economy as a whole; (g) publish estimates of margins of error in economic statistics; (2) sharp or large changes in fiscal and monetary policies should ordinarily not be made at high employment; (3) tax changes should be reserved for longrun growth objectives; (4) positive use should be made of expenditure policy to realize economic objectives.

D. Other domestic policy recommendations: (1) Recommend consideration of means to encourage profit sharing; (2) broaden Employment Act to state explicitly all of the major goals of economic policy; (3) recommend study by the Joint Economic Committee of the extent to which the activities of the Federal regulatory agencies are or should be guided by the Employment Act.

II. Balance of Payments and International Monetary Reform

A. Eliminating balance-of-payments deficit: (1) Restore cost and price stability in the economy; (2) Federal Reserve should maintain short-term interest rates at high levels while reducing long-term rates; (3) approve efforts of administration to gain cooperation with Europeans in establishing coordinated monetary policy; (4) urge negotiation with NATO members of a "multilateral defense payments system"; (5) consider reorienting foreign aid program from loans to a real resource basis; (6) place greater emphasis on strengthening competitive position of American agriculture and increasing dollar sales under Public Law 480.

B. Preventing a run on gold: (1) Recommend immediate contingency planning against possibility of a devaluation of sterling; (2) urge negotiations on cooperative means to restrain the convertibility of existing dollar balances into gold.

C. Longrun strengthening of international monetary system: (1) Urge administration to press toward agreement on a contingency plan for the creation of new reserve assets; (2) urge implementation of the recommendations of the report of the Working Party III of the Organization for Economic Cooperation and Development regarding the strengthening of the adjustment system; (3) urge consideration of proposals to provide greater flexibility in exchange rates.

III. U.S. Foreign Trade Policy

A. The Kennedy Round: (1) Decisions on trade negotiations should be made now but the U.S. should not weaken its insistence on reciprocity in bargaining; (2) maintain the commitment of the U.S. to the idea that there cannot be industrial bargaining without agriculture bargains; (3) urge development of an international code to harmonize antidumping laws and procedures.

B. After the Kennedy Round: (1) Formulate new trade legislation to deal with: (a) freeing up of agricultural trade; (b) nontariff barriers to trade; (c) authority for the President to negotiate international agreements to trade within industrial sectors; (d) trade problems of the developing countries; (e) review of most-favored-nation principle; (f) consideration of alternatives should Britain fail in bid to enter the Common Market; (2) recommend that the Joint Economic Committee hold hearings on international trade this spring; (3) urge that the responsibility of the Special Representative for Trade Negotiations be broadened to coordinate all U.S. trade policy; (4) reexamine the work of the General Agreement on Tariffs and Trade; (5) press for convocation of GATT members this year to assess the future of the organization; (6) urge hearings on East-West trade by Congress.

IV. Guaranteeing Opportunity to the Disadvantaged

(1) Favor abolishing all categories of public assistance and providing aid on the basis of demonstrated and specific need; (2) reduce public assistance benefits by substantially less than the added income from wages or training allowances in order to provide incentive to work or train; (3) favor training allowances and access to daycare facilities for mothers on aid to dependent children; (4) consider a plan to provide interim jobs with private firms under contract to the Government for the unskilled and poorly trained presently on welfare; (5) urge new emphasis on technical training schools; (6) improve

quality of schools in poverty neighborhoods; (7) update school-grant formulas in State equalization laws to account for the cost of education in low-tax base school districts; (8) urge counties to develop equalization laws; (9) provide birth control information to public assistance recipients; (10) urge consideration of a pilot plan of subsidization by private businesses to working-age young people who are neither in school nor in a job; (11) support continued development and expansion of preschool education programs.

V. Strengthening the Farm Sector

(1) Reorient Government price-support programs toward a strong market economy; (2) establish sound inventory and reserve levels for all price-supported commodities, with no disposal of Government stocks which would disrupt normal markets; (3) reorient research activities of the Department of Agriculture to give greater emphasis to the development of new agricultural products; (4) encourage greater economic development in rural areas with declining population; (5) urge U.S. negotiators in the Kennedy round to insist that our concessions on industrial products be contingent on concessions with respect to U.S. agricultural exports.

VI. Meeting America's Urban Crisis

(1) Urge consideration of the proposed Economic Opportunity Corporation, a federally chartered enterprise which would provide technical assistance and investment capital to encourage increased involvement by the private sector; (2) urge consideration of the plan for the establishment of the National Home Ownership Foundation to make homeownership available for low-income families; (3) urge formation of the National Commission on Urban Living to serve as a coordinating body working with Government and nongovernmental agencies.

VII. National Emergency Strikes

(1) Support legislation giving the President new powers to protect public interest in labor disputes of national character; (2) endorse the bipartisan joint resolution to require the Secretary of Labor to give Congress his recommendations for improving existing emergency strike laws.

VIII. Revitalizing State and Local Governments

(1) Urge strengthening of State and local governments by restraining the trend toward fiscal centralization.

IX. Conclusion: New Directions in Economic Policy

(1) Utilize our resources more effectively and efficiently; (2) harness the energy and creativity of the private sector in solving public problems; (3) promote a faster increase of the economy's growth potential as the first priority among our economic goals.

INTRODUCTION

Great opportunities lie ahead for America—and for the American economy—if only we are willing to seize them.

The goals we have set for ourselves in the coming decade are ambitious goals worthy of a great nation. Abroad, we have costly social and defense commitments to meet. At home, we aspire to nothing less than enriching the quality of American life—*every* American's life.

We seek to revitalize our cities and to reverse the process of urban decay.

We seek to break the vicious cycle of poverty, inadequate education, low occupational skill, low income, and renewed poverty.

We seek to provide job opportunities for all those able and willing to work.

We seek to abolish discrimination in housing, education, employment and medical care.

We seek to rid our environment of everything that pollutes the air and water, everything that mars the American scene.

We seek to enlist the energy and creativity of private enterprise to participate in the solution of these and other great national problems.

But if we are to meet these high goals, the nation will require new directions in its economic policies. For the present policies clearly are inadequate to the task.

A FAILURE OF ECONOMIC STEWARDSHIP

Last year witnessed a sharp deterioration in the basic health and stability of the American economy.

At home, the deeply serious demand inflation of 1966 is giving way to a wage-price spiral in 1967. At the same time, the economy is vulnerable to a sharp slowdown in growth—possibly even a recession—along with a higher rate of unemployment.

Abroad, European monetary authorities are beginning to question the dollar, largely because of inflationary U.S. domestic economic policies. A decade of unbroken payments deficits and gold losses has finally brought a reversal in the accumulation of dollars by foreign monetary authorities. The long-contained world monetary crisis is not inevitable, but it has become a live possibility.

At the same time, the administration is moving towards a new isolationism in international economic affairs. It has asked for another extension of the "temporary" interest equalization tax, while the restraints on direct investment and bank lending abroad have been continued and broadened.

Why? What has happened to spoil the promise of high rates of growth, stable prices, low unemployment and an international economic order free of restrictions and controls on trade, investment and travel?

The answer is that the administration has failed to properly manage economic policy, and it threatens a repeat performance in 1967.

Failed To Apply the Brakes

The advocates of forced draft economic expansion failed the test when it came to applying the fiscal brakes. Ironically, the most vocal proponents of easy money—who slightly more than a year before were conducting a war of nerves on the Federal Reserve for increasing the discount rate—have become the handmaidens for the highest interest rates in 40 years.

The depression in the homebuilding industry was no accident. Neither was the near financial panic last summer nor the hardships imposed on small business, State and local governments, and other borrowers. They resulted directly from the administration's failure to take adequate measures—either by expenditure control or the tax route—to promote a better "mix" between fiscal and monetary policy.

Throughout 1966 the administration was less than candid with the American people, the Congress, and with itself. It produced a budget for 1967 which will go down as a model of fiscal deception. Even the experts had trouble piercing the budgetary thicket to determine whether it delivered the promised fiscal restraint. Events proved that it did not.

Long after it became evident to many in the country, the administration still refused to admit that the Vietnam war would impose heavy new strains on the economy and the budget. An early and candid reestimate of defense expenditures would have strengthened the case for a politically unpopular increase in taxes, a reduction in domestic spending or some combination of both. It was not until September—with the massive defense buildup becoming undeniable and the inflationary pressures intolerable—that the administration took further fiscal action.

Took the Wrong Action

When it finally acted, it took the wrong action. It broke its word to American business and asked for suspension of the investment credit, a device which business had accepted only after receiving assurances that it would be a permanent part of the tax system.

By that action alone the administration may have set the stage for a capital goods recession in the second half of this year. From the administration's point of view, however, the suspension had numerous advantages over an across-the-board tax increase or a reduction in spending, but they had little to do with economics.

We could cite other examples of the administration's failures of economic stewardship:

The denial last January that inflation in 1966 would be any worse than in 1965, when actually it became twice as severe.

The prediction that the balance of payments would be in equilibrium in 1966.

The budgetary assumption that the Vietnam war would be over by June 1967.

The self-praise over employment gains in a wartime economy in which a half million men have been added to the Armed Forces in the past year, perhaps a million more have found jobs related to the defense buildup, and 168,000 persons have been added to the Federal civilian payroll.

The sharp and destabilizing increase of 25 percent in nondefense cash outlays between fiscal 1965 and 1967.

And even now, the hotly delivered assertion of some officials that policy was near perfect last year.

Is it any wonder that the American people have lost confidence in the integrity of the economic policies and actions of the administration and the Democratic Congress? The evasions, the sharp shifts in policy, and the failure to take appropriate actions when needed have made Government the chief source of uncertainty and instability in our economy. If the economy is shot through with imbalances and distortions—and it is—the fault lies squarely at the Administration's and the Democratic Congress' door.

DOMESTIC POLICY RECOMMENDATIONS FOR 1967 AND BEYOND

Policy for 1967

The administration bases its policy for 1967 on the assumption that growth will be sluggish in the first half of the year and resume its strong uptrend in the second half. The testimony of nearly all private witnesses who appeared before the committee was less optimistic.

The consensus among private economists is that growth for the year as a whole is likely to be less than the 4 percent in real terms predicted by the administration. There was little support for the view that the second half will see a strong upturn. Obviously some reduction from the breakneck pace of recent years was to be expected. But we are concerned that the risks of recession are mounting.

The leading indicators bear out this view. Of the 12 key indicators, nine are clearly pointing downward, while only three point towards continuing business growth. A year ago, nine of these indicators pointed towards continuing strong growth.

One of the most threatening problems is the overhang of inventories resulting from the massive buildup of stocks late last year. A reduction in the rate of accumulation—possibly even some liquidation—is a certainty this year. What is unknown is when and how fast the reduction will take place. Past experience indicates that the inventory adjustment will not be completed by midyear, as the administration expects.

Another trouble spot is corporate profits. Althought the administration foresees an increase in profits this year, many economists believe profits will fall, possibly by as much as 5 percent. At the same time, unit labor costs will rise sharply and the rate of increase in productivity will drop, leading to a profits squeeze. Together with suspension of the investment credit, this will tend to depress business spending and restrain the level of economic activity throughout the year and possibly into next year as well.

Events could change this outlook dramatically. Federal spending, for example, could be sharply higher than now predicted. Administrative budget spending in fiscal 1967 will be $20 billion over 1966, more than $14 billion higher than the original estimate. Spending in fiscal 1968 is estimated by the President to increase by $8 billion; but if the costs of the Vietnam war have again been underestimated, the increase will be more.

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Barring the unexpected, we doubt the administration's optimistic assumptions. It now appears that growth will be slow throughout the year and that unemployment will increase. Prices will rise by at least the 2½ percent predicted by the administration. Softness in the economy will inhibit business from raising prices to fully offset higher labor and other costs, but some cost increases will be reflected in higher prices. The rest will show up in narrower profit margins.

A. Monetary policy

Monetary policy played a major role in powering the recent expansion of the U.S. economy. Actually monetary policy was too expansive prior to last spring and helped to bring on the inflationary overheating of the economy.

In April 1966, however, monetary policy shifted to a sharply restrictive stance. Although the absence of adequate fiscal restraint made a tight monetary policy necessary to keep prices from going through the roof, an easing of money and credit is now required by current softness in the economy.*

Since the spring of 1966, the conventionally defined money supply has actually declined, after rising by a highly expansionary 6.1 percent from April 1965 to April 1966 compared to an annual rate of 3 percent in the previous 5 years. Several private witnesses warned that a recession would occur sometime this year unless the recent downward trend in the money supply was reversed.

We therefore recommend that the Federal Reserve increase the money supply in 1967 at an annual rate of 2 to 4 percent. Monetary growth should vary between the upper or lower end of this range, as economic conditions indicate, but we urge the Federal Reserve to avoid the extremes of 1965 and 1966. Along with our other recommendations for 1967, we believe this would provide a better policy "mix" than was followed in 1966.

B. Tax policy

In light of the economic outlook, we do not believe that the administration has made a convincing case for the 6-percent tax surcharge. Support for a tax increase could be justified only if a new demand-induced inflation threatens and then only if the administration and the Democratic Congress have first substantially reduced domestic spending. This is not the case today.

A renewal of excess demand pressures is not out of the question. The Federal Government this year will have the most stimulative fiscal impact in modern economic history. On the high-employment budget (NIA basis)—the administration's preferred measure of fiscal impact—the deficit will be $4 billion for calendar 1967, even assuming the administration's spending and revenue estimates, which include the tax increase, prove valid. This high-employment budget ran about $8 billion average surplus from 1961–65. In the event of a recession or a sharp slowing in growth, the Federal deficit probably would be in excess of $20 billion on an NIA basis.

If a substantial rise in private GNP is superimposed on the sharp expansion of demand arising from the Federal sector, a renewal of

*Senator Miller points out that fiscal restraint needed to enable such easing to take place without inflation should be exercised by the administration and its controlled Congress.

demand pressures is certain to occur. Fiscal restraint would then be a clear requirement of economic policy.

In any event, the Congress is under no compulsion to make this decision before the July 1 effective date requested by the administration. Action should be taken when, and only when, the outlook clears sufficiently to make a rational judgment possible, which might not be until later in the year.

Wage-price inflation is not sufficient justification by itself for the tax surcharge. An increase in taxes acts only indirectly on cost inflation. Indeed, a tax increase could aggravate cost pressures. A raise in taxes is both an increase in costs for business and an inducement for labor to seek wage gains which maintain disposable income.

C. Expenditure Policy

Expenditure policy should be designed at all times to serve high priority national objectives.

The share of the Nation's total resources which the public is willing to devote to the Federal sector is limited. Against these limited resources, there exists a multitude of competing claims.

Reducing the rate of increase in Federal outlays makes more resources available to meet the needs of State and local governments, individual consumers, and business. Actual reductions or a slowing of the rate of increase in some Federal programs could also make additional resources available for higher priority programs.

Ample room exists for reductions in spending. Professor Arthur Burns told the Joint Economic Committee that spending on the NIA budget will rise by an average of $17 billion a year between fiscal 1965 and 1968, compared to average increases of $5.4 billion from 1960 to 1965, and $4.8 billion from 1955 to 1960.

Even eliminating Vietnam expenditures, annual increases between fiscal 1965 and 1968 will average $10 billion, or 2½ times the annual rate of increase in total spending in the preceeding years from 1962 to 1965.

Professor Paul McCracken pointed out that if $5 to $5½ billion of fiscal restraint were applied to 1968 nondefense expenditures, these outlays could still rise at an annual rate of 7 percent, compared to the 11 percent requested by the administration.

We believe the economy would benefit by a substantial reduction in planned Federal outlays in fiscal 1968 based upon a careful evaluation of national priorities. Many programs themselves would profit from a slower rate of advance in spending. We believe that the recommendation of the majority of this Committee represents a feasible and desirable goal.

Unlike the majority, however, we would put greater emphasis on reducing defense activities unrelated to the current military effort in southeast Asia. A lean defense budget need not mean a weaker military establishment. Even during World War II, the Congress, notably the Truman Investigating Committee, diligently sought out and eliminated waste in the military establishment. We think the times call for a similar effort by the Congress today.

A reduction in the rate of increase in spending would not have an adverse impact on the level of economic activity. It would have the positive advantage of avoiding the adverse effects of a tax increase, or as large an increase as might otherwise be required to stop inflation, including the impact on costs, incentives, and the increase in the fiscal drag of the Federal revenue system.

A reduction in expenditures would reduce the borrowing requirements of the Federal Government and thus ease pressures on the money and capital markets. More funds would thus be available to other borrowers and at lower interest rates. A reduction in Federal financing requirements reinforces monetary ease and acts as an offset to the overall economic impact of the reduction in spending.

D. Investment Tax Credit

We oppose the use of the investment credit for economic stabilization purposes. Business investment planning involves long leadtime. The effects of a suspension of the credit are likely to be felt when the need for restraint has passed.

Indeed, it appears that suspension of the credit in 1966 will have its impact in the second half of 1967, when the need for restraint may have passed. In light of the current outlook, it is becoming clear that the credit should be restored, and we are gratified that the administration has recognized the need.

Once the credit is restored, we think that studies should be undertaken to determine whether the tax credit device should be a permanent part of the system or whether another approach, such as emphasizing modernization of depreciation allowances, might be better adapted to reaching the same goals.*

E. Debt Management

Treasury action in managing the public debt has an important influence on total spending for goods and services. Sound debt management can promote economic stability, but if the debt is poorly managed, the effects of fiscal and monetary policies may be largely offset.

The impact of debt management is often believed to depend on the characteristics of different types of Treasury securities. Short-term obligations possesses many of the characteristics of money. Long-term Government securities, on the other hand, are primarily purchased by investors and are usually held for long periods. It is generally believed that too much reliance on short-term financing may lead to an inflationary increase in liquidity in the economy.

According to this theory, changes in the composition of the debt in the past two years have tended to be stimulative because newly issued debt has been relatively short term. The legal interest rate limit on long term Government bonds is no longer competitive and forces the Government to borrow in the form of "near money" securities. This is inappropriate in a period of high employment and continuing strong inflationary pressures and would be unnecessary if the administration and the Democratic Congress had not deliberately pursued a course of multi-billion-dollar deficit spending.

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*Senator Percy supports the investment tax credit becoming a permanent part of our tax structure at the earliest possible date. He believes this is important in order to provide every encouragement to industry for the modernization and improvement of plant and equipment necessary to insure the lowest possible consumer prices, the highest possible wages and the competitive position of American products in world markets.

Imbalance in the Maturity Structure

One of the results has been an apparent imbalance in the maturity structure of marketable interest-bearing public debt. As recently as June 1965, the average length of this debt was 5 years and 4 months. In December 1966, it was down to 4 years and 7 months. In the same period, securities outstanding with maturity under 1 year increased by $18 billion. Those in the 1 to 5 year range increased by $3 billion, while the amount outstanding in longer maturity classes declined.

We urge again that the administration recommend immediate lifting of the 4¼-percent ceiling on Government bonds. Removal of the ceiling would facilitate noninflationary long-term Government financing and at lower interest costs than are now possible through financing at shorter term, provided the Federal Government itself follows noninflationary policies. This position received considerable support from testimony heard by the committee this year.

We also urge that the Joint Economic Committee study the problems of debt management, including the proper criteria to determine when debt financing is inflationary and noninflationary.

The use of participation sales by the administration also has a major impact on financial markets. Last year, they intensified the financial squeeze and were a major factor in pushing up interest rates. In addition, participation sales represent an end run around the statutory debt ceiling and lead to confusion about the true level of Federal spending, since the administration shows receipts of such sales as a reduction in expenditures.

We urge that participation sales, if they are to be continued, be included in the budget as part of the public debt, rather than as a reduction in spending.

In this connection, we welcome the statement of the Secretary of the Treasury that the administration will study certificate sales and other Government contingent liabilities and look forward to receiving its report when the debt limit is before the Congress later this year.

Study Credit Programs

Finally, we are impressed with the observations of Federal Reserve Board member, Sherman B. Maisel, relating to the operation of Federal credit programs. Currently, more than 75 different programs scattered among a variety of governmental departments and agencies either do their own borrowing, lend money borrowed from the Treasury, or lend Government funds which are then recouped through resale operations; $125 billion of direct or guaranteed loans are now outstanding.

The present procedures appear haphazard, costly, and lacking in rationality. Governor Maisel argues that the system creates unnecessary interest and administrative costs and raises problems for the President and the Congress in exercising control over major governmental programs. As was evident last year, serious disturbances may be created in money and credit markets.

Coordination of debt management and monetary policy is made far more difficult by the proliferation of debt instruments and debt managers. While we are not yet ready to endorse Governor Maisel's proposals, we believe there may be merit in the establishment of a central Federal Credit Management Corporation, or in a more direct move to permit the Treasury to assume the same duties and responsibilities which the agencies now perform. Either approach might help give the Government a unified approach as a borrower to the money and debt markets and help show in a single sector of the budget the form of the commitments being assumed by the Government, as well as present and potential costs. We urge the appropriate committees of Congress to give Governor Maisel's suggestion early and thorough consideration.

F. Guideposts

In past years, we have been highly critical of the administration's attempt to apply a specific numerical yardstick to the guideposts. We have also criticized their uneven application and the use of coercive pressures and threats of reprisal to bring "violators" into line.

We therefore applaud the administration's abandonment of a fixed yardstick and its continuing emphasis on the principles behind the guideposts. We have always supported the educational value of the guidepost concept, which in essence is only a statement of what a free market should do in the absence of market imperfections and the business cycle. Real economic gains depend upon relating changes in wages and prices to productivity, and we believe the point merits repetition.

Our pleasure over abandonment of the fixed yardstick is tempered by the administration's apparent intention to continue interference in individual price and wage decisions. The Council admitted that last year it became involved in price decisions in 50 different industries and has stated that its efforts will continue and increase. Some industries apparently are contacting the Council in advance of making price changes. Aside from the fact that such activity can impair the Council's primary function as an advisory body to the President, we think such actions by the Federal Government, particularly without express authorization of Congress, pose serious risks. We would hope that future actions of this kind do not follow the pattern of the steel and aluminum episodes of recent years or of the action taken against the oil industry just last month.

We reject proposals for the establishment of a public Wage-Price-Productivity Board which would review key price and wage decisions in the private economy. The establishment of such a board would be a first step toward control of private economic decisionmaking that could impair the important economic function that changes in wages and prices have in allocating resources to their most productive use.

Equity demands that wage settlements take account of increases in the cost of living. It is quite another matter for the Government itself to establish a floor on such settlements by announcing a new 5- or 6-percent guidepost, as some are recommending.

The best way to avoid inflation is by Government itself to follow sound fiscal and monetary policies. The avoidance of demand inflation will prevent increases in the cost of living, which are often at the root of cost-push inflation. Where market power exists, we believe the Government can best serve the public interest by pursuing sound regulatory and foreign economic policies and by taking other actions which strengthen and improve the operations of the marketplace.

Toward maximum employment without inflation

In a high employment economy, the achievement of further employment gains without inflation depends upon specific measures to overcome specific barriers to employment.

At least 1 million of the 2.8 million persons now jobless comprise the hard-core unemployed. Most of these are teenagers, women, and Negroes.

An increase in aggregate demand opens up new jobs but not necessarily ones the hard-core unemployed can fill. A study last year by the Manpower Research Council indicated that at that time there were about 3 million vacant jobs in the economy, about the same as the number of jobless.

The hard-core unemployed need better education and training in job skills and a reduction in discriminatory barriers to their employment. We therefore recommend the following:

Human Investment Act

(*a*) We endorse the Human Investment Act, which has been introduced in the House by 112 Republican Congressmen, led by Representative Curtis, and by 25 Senate cosponsors under the leadership of Senator Prouty.

This legislation would spur job training by the private sector by providing a tax credit to employers amounting to 10 percent of certain expenses of job training, including apprenticeship training, on-the-job training programs under the Manpower Development and Training Act, cooperative work-study programs, tuition refund programs, and expenses of organized group and classroom instruction.

The act is premised on the fact that the most effective job trainer in the Nation has always been the free enterprise economy. Business and labor, working together, have consistently been able to conceive and develop sound training programs superior in quality and minus the inefficiency often inherent in Government operated programs.

The bill would remove an impediment to an employer who wants to expand his training program and initiate new programs for his employees. As those presently employed move up to better jobs through more training, those now unemployed because of insufficient skills can be hired to take their places. The Human Investment Act also offers new hope to workers whose jobs are threatened by automation or by shifting defense contracts.

We also believe that management techniques should be improved in order to design jobs to better fit available manpower resources.

(*b*) We support legislation to make permanent the unemployed parent and community work and training programs associated with aid to families with dependent children as a means to provide training to public assistance recipients so that they may ultimately become self-supporting.

(*c*) Better coordination is needed of training and retraining efforts carried on under the vocational education program, the military services, Manpower Development and Training Act, apprenticeship programs, the poverty program, and the Economic Development

Administration. The administration has promised to make progress in this area, and we shall follow its efforts with great interest.

(*d*) The effectiveness of the Federal-State employment service should be improved, including closer coordination of its work with private employers to encourage voluntary listing of job vacancies and advance notice of mass layoffs; development of its capability to provide occupational guidance and testing; and conducting more research on manpower problems. At the same time, the critically important private employment services should be strengthened and encouraged in those areas where they are doing a good job.

(*e*) There is an urgent need for improvement in our economic security programs, particularly an effective linkage between manpower training for the long-term unemployed and the provision of unemployment compensation.

(*f*) Efforts are needed to increase the mobility of the labor force by encouraging the transferability of pensions and other rights and by eliminating tax impediments to job changes along the lines of legislation introduced by Congressman Curtis.

(*g*) There should be a complete congressional review and study of the effects of the draft on the nation's manpower programs and policies, including measures which could be taken to emphasize the voluntary aspect of military service and means of increasing options now open to the draft-age young men. Efforts should also be increased to transfer as many jobs as possible in the armed services from military to civilian personnel, particularly women.*

(*h*) Individuals should be given greater encouragement to upgrade their skills by eliminating tax obstacles in the path of new skill development.

(*i*) We should study the proposal to encourage employment of teenagers and other low-skill individuals and some handicapped persons through enactment of a two-step minimum wage, with the Government subsidizing the employee for the difference between the actual wage paid and the minimum wage.

(*j*) Continuing efforts are needed to break down discriminatory barriers to employment based upon race, age, and sex. The relatively heavy concentration of unemployment among our young and older workers makes it important for both labor unions and businesses to eliminate bias against any person because of his age when no distinction is warranted by the reasonable demands of the job. In the case of labor unions, progress should be made particularly in opening up the opportunities for union membership, and especially for apprenticeship training, to young people. The Congress should consider the desirability of legislation to prevent businesses engaged in interstate commerce from practicing age discrimination, as proposed in legislation introduced by Senator Javits.

Longrun policy considerations

The committee's hearings on the President's Economic Report produced testimony by several eminent private witnesses which raises grave doubts about the ability of Government to "finely tune" its policies to the needs of the economy. The point was made that both

*Senator Miller does not believe that the Joint Economic Committee should get involved in questions of voluntary or involuntary military service or optional government service in lieu of military service.

monetary and fiscal policies in the postwar period, and particularly within the past year and a half, have tended to destabilize the economy. Weaknesses in economic analysis and policy execution appear to be the chief limiting factors on the Government's ability to shape appropriate policies, particularly at high employment.

Given the present state of economic knowledge and our institutional framework, fiscal and monetary policies are unable to operate with precision at all times. The problems include the limitations of economic statistics and forecasting, the time required to execute a policy change, the interval before which policy has its impact, and uncertainty about what the impact will be. Taken together, they severely limit the kind of "push button" economic policy which the Council of Economic Advisers appears to advocate.

The limitations of economic policy are most evident in a period of high employment. As one witness made clear, economic policy between 1960 and 1965 appeared to operate with a high degree of precision and success only because there was a considerable margin for error. Unemployment was high, and there was a large amount of unused industrial capacity. Today, with near full utilization of resources, there is little or no margin for policy error. Frequent changes in the degree of stimulus or restraint in such a period becomes particularly dangerous.

Policy Guides

These observations suggest that—

(1) A greater effort must be made to improve existing economic statistics and develop new and more reliable measures of economic activity. We recommend that the statistical agencies of the Government undertake or accelerate efforts to—

(*a*) Provide quarterly revisions in the original GNP forecast for the year made by the Council of Economic Advisers;

(*b*) Improve the Federal budget information system, including quarterly estimates of budgetary receipts and expenditures and the presentation of the budget each year in the context of a long-run set of budgetary projections, covering at least a 5-year period. We strongly support the President's proposal for a thorough review of budgetary concepts and practices.

(*c*) Make faster progress in developing a statistical series on job vacancies. Had the administration seen the vital need for such a series, it could have long ago induced the Democratic Congress to appropriate the modest sums required to launch such an effort. To the extent such statistics pinpoint unfilled job openings by occupation and geographic area they would be invaluable in shaping effective manpower training and guidance programs. Information on the relationship between the number of persons unemployed and the number of job vacancies also would help policymakers determine with greater certainty whether aggregate demand at any particular time was deficient and, if so, aid the development of policies to deal with it. In this connection, the Dictionary of Occupational Titles must be constantly kept up-to-date in a period of rapid technological change, preferably by putting it into loose-leaf form.

(*d*) Develop a statistical series which measures wealth in the economy, as recommended by the Subcommittee on Economic

Statistics, in order to supplement the gross national product series, which measures economic activity but which gives an imperfect picture of true economic growth. One step towards this goal would be the development of a capital budget for the Federal government.

(*e*) Develop improved regional and State economic accounting.

(*f*) Measure and forecast productive capacity both in major industries and in the economy as a whole.

(*g*) Determine to the greatest degree possible the margins of error in our economic statistics and prominently publish these estimates along with the figures themselves.

Tax Changes for Longrun Growth

(2) Sharp or large changes in fiscal or monetary policies should ordinarily not be made at high employment. In order to avoid undesirable and unforeseen impacts, policy changes at high employment should be made gradually and smoothly. The only exception to this guide would be an unexpected change in some external influence, such as a sharp spurt in defense spending.

Ordinarily, tax changes should be reserved for longrun growth objectives. We are particularly impressed by Prof. Arthur Burns' case for small annual tax reductions as a means of reducing impediments to economic growth once the defense emergency has passed. If regular tax reductions promote a strong and rapidly growing economic base, Federal revenues will actually be greater than at higher rates which act as a drag on economic activity.

(3) With fiscal and monetary policies at high employment confined to a somewhat passive and accommodating role, more positive use should be made of expenditure policy to realize economic objectives. For example, we believe that at high employment, public expenditures on training and retraining, education, counseling, and placement can greatly assist in reducing hard core unemployment without inflation.

Expenditures should be made on their own merits within the framework of a broad set of national priorities. The many goals of public policy are capable of imposing infinite demands on the Federal budget. It is essential at all times that spending for ineffective, duplicative, or low priority programs be eliminated or at least reduced, thus permitting tested and high priority programs to go forward at an orderly and productive pace.

There should be no quarrel over basic objectives. It is clear to everyone that the share of the Nation's resources that can be claimed by the Federal sector is limited. To meet legitimate needs within the limits of resources which the public is willing to allocate to the Federal Government requires the establishment of priorities. It also requires judging programs on a strict cost-benefit basis and determining whether our goals might better be achieved by reducing or eliminating some programs, expanding others, or by providing incentives to the private sector.

Other domestic policy recommendations

(1) We recommend consideration of means to encourage profit sharing by employees, including restricted stock options, stock-purchasing plans, and other methods of stockholding, as part of or in lieu of increases in wages and salaries.

(2) We believe that the Employment Act should be broadened to state explicitly all of the major goals of economic policy.

We recommend that the act be amended to give explicit recognition to stability of the price level, maximum efficiency in the use of resources, both public and private, and equilibrium in the balance of payments.

Public awareness of the tasks and complexities of economic policy would be increased vastly by an explicit statement of these policy goals. Policymakers themselves would be likely to give greater respect and attention to all major goals if they were explicitly stated in the Employment Act. The tendency in Government too often has been to minimize problems relating to inflation, efficiency, and the balance of payments with the result that efforts to expand employment have themselves suffered.

(3) The recent investigation of ocean freight rate disparities by the Joint Economic Committee raised questions about the extent to which the activities of the Federal regulatory agencies were in conformity with the mandate of the Employment Act of 1946. In furtherance of its functions under the act, we recommend that the Joint Economic Committee study the extent to which the activities of the Federal regulatory agencies are or should be guided by the Employment Act of 1946.

THE BALANCE OF PAYMENTS AND INTERNATIONAL MONETARY REFORM

The administration's concern over the balance-of-payments deficit and gold outflow appears to be giving way to a sense of complacency and resignation. It is becoming clearer every day that administration officials are coming to believe that we will have to live with the deficit at least as long as the Vietnam war continues.

This attitude is dangerous and unwarranted. The administration's failure to give the attainment of balance-of-payments equilibrium the highest priority is likely to weaken confidence in the dollar, lead to larger gold outflows and delay reform of the international monetary system.

Time is quickly running out on the United States. Our continuing deficit and loss of reserves is raising serious doubts in Europe about the state of the American economy and the continued ability of the dollar to serve as the keystone of the world monetary system.

Reserve Assets Decline

Last year's balance-of-payments figures mask a deterioration in our fundamental position. In spite of a surplus on the official settlements basis, there was a drain on our gold stock of nearly $600 million and a further decline in our total reserve position. Under Secretary of Treasury Frederick L. Deming has admitted, "This is a feature that causes concern and represents a destabilizing element in the international monetary system. Any balance or surplus—however defined—which is accompanied by continued large reserve losses cannot be regarded as satisfactory."

Against a grand total of $31 billion in short-term dollar liabilities to foreigners—$12.6 billion of them immediately convertible to gold by official institutions—the United States now has a gold stock of slightly more than $13 billion. About $10 billion of this is now required as backing for Federal Reserve notes, leaving slightly more than $3 billion in "free" gold to meet our international commitments.

But the Administration has said that it has no plans at this time to ask for removal of the gold cover behind Federal Reserve notes. In view of the steadily diminishing supply of "free" gold, what action does it intend to take to protect the dollar?

The deficit on a liquidity basis was held to $1.4 billion last year largely because of a variety of special transactions which cannot be counted upon again this year. These included sizable foreign debt prepayments to the United States and, much more importantly, a large inflow of foreign capital attracted by tight money and high interest rates into U.S. financial assets with a nominal original maturity of more than 1 year. Some estimates indicate that the deficit on the liquidity basis would have been double the actual figure in the absence of these special circumstances.

The sharp deterioration of $1.1 billion in our trade surplus last year was particularly disappointing. The merchandise trade balance declined to $3.7 billion, continuing its steady fall from the $6.7 billion surplus of 1964.

Little Hope for Improvement

The administration believes that the balance of payments will move toward equilibrium this year. The outlook offers little support for this hope. The expectation of a substantial increase in the trade surplus may well be unreasonable in the face of continued increases in costs and prices in the United States, and the prospects for slower growth in some of our major markets overseas.

The administration also hopes that the program of "voluntary" restraints on foreign investment and lending will make a further contribution to the balance of payments this year. We think any substantial contribution from this source is unlikely, particularly during a period of easier money.

There is a distinct possibility that capital outflows will be larger and capital inflows smaller this year than they were in 1966. Any significant easing of extremely tight money and high interest rates will sharply worsen the capital account in the absence of a similar easing of money in Europe.

We agree with the estimate of the National Foreign Trade Council that 1967 will see a worsening in the overall balance-of-payments deficit. We also agree with the former Under Secretary of the Treasury, Robert V. Roosa, that 1967 could be "a crucial year for the dollar, and even for the standing and leadership of the United States in world affairs," unless solving the balance-of-payments problem assumes the highest priority in administration economic policy.

Turning Point Reached

Why has a turning point been reached in the international economic position of the United States?

First, the dollar holdings of the monetary authorities of the free nations began to decline in 1965 after increasing by some $13 billion in the previous 15 years. According to Prof. Fritz Machlup of Princeton University, the decline in 1965 and 1966 was nearly $2 billion. Professor Machlup has said that this development "marked the end of an era" and that its significance for the world monetary system "can hardly be exaggerated."

Foreign monetary authorities no longer wish to hold additional dollars as reserves. This loss of confidence in the dollar's reserve function makes a run on gold more likely should a variety of possible economic and political shocks occur. These might include an acceleration of domestic inflation, sharp step-up of the war in southeast Asia, or devaluation of the British pound.

Second, since the end of 1964, world reserves have been growing very slowly. By the middle of last year, the foreign exchange component of world reserves was lower than at the end of 1964, and the amount of gold held as reserves was virtually unchanged. Reserve increases have come basically from increases in members' reserve positions in the International Monetary Fund. Deficits in reserve centers no longer add automatically to the supply of liquidity. With gold increasingly going into private hoards, further increments to reserves from that source cannot be counted upon.

This slow growth in reserves makes an international agreement on reform of the world monetary system all the more urgent. Failure to reach agreement will mean an acceleration of the drift—already evident—toward destructive economic nationalism. The steady loss of reserves by the United States has already led to the adoption by our own Government of damaging policies, such as the foreign lending and investment restraints, which represent steps towards multiple exchange rates. Ironically, in order to avert a crisis, the administration has adopted policies which have the same result as the protectionist and restrictive policies which would follow should a crisis actually occur.

The Administration originally urged enactment of the interest equalization tax and imposed the other controls on capital outflows and bank lending to "buy time" to solve the basic balance of payments problem. Having failed to solve that problem, these destructive devices are now becoming a permanent part of our foreign economic policy. The Administration is now asking for the second extension of the interest equalization tax and for additional authority for the President to raise or lower the rates from zero to two percent. Looking back on our experience with this tax and other controls, we are convinced more than ever that the proper remedy for the balance of payments problem lies in other directions, which we discuss later in this section.

In the light of a 1964 Brookings Institution study which covered the balance of payments effects of capital controls, we also feel that there should be another review at this time of the costs involved in the tax and other capital controls, including the effects on the financial leadership of the United States, on our export trade, on future earnings from investment income and on the fringe benefits to our balance of payments arising from our position as the world's foremost capital market.

Third, our continuing balance-of-payments deficit and gold loss is making it increasingly difficult for the United States to pursue its foreign policy objectives. Continuing deficits expose the United States to financial blackmail by those who disagree with our policies and lead to friction and misunderstanding with our friends, notably in the dispute with Germany over military offset purchases. Elimination of the balance-of-payments deficit is thus essential to restore freedom of maneuver in U.S. foreign policies.

There is no easy or painless solution to the dollar dilemma. But action along several lines is urgently necessary to eliminate the deficit at the earliest possible time, protect the dollar against a run on gold, and provide for long-range reform of the international monetary system. These proposed actions are as follows:

A. Eliminating the Balance-of-Payments Deficit

1. It is crucial to our trade surplus and to foreign confidence in the dollar that the administration use all of its fiscal and monetary resources to restore cost and price stability in the American economy. We have discussed elsewhere in these views our recommendations on how to ahieve this vital objective.

2. We look with favor upon the suggestion of former Under Secretary Roosa that the Federal Reserve attempt to maintain short-term interest rates at high levels, while facilitating a reduction in long-term rates.

3. We applaud the efforts of Secretary Fowler to gain cooperation of European officials in establishing coordinated monetary policy. While we believe that there are limits to the cooperation we can expect to receive, we urge that the administration continue along this route as one way to help prevent a sharp outflow of volatile investment funds as domestic interest rates decline.

4. We urge the administration to pursue negotiations on a proposal offered by the Committee for Economic Development to establish a "multilateral defense payments system" under which no NATO member suffers or profits in balance-of-payments terms from any expenditures made through NATO for the common defense.

5. We also believe that consideration should be given to moving the foreign aid program to a real resource basis, as suggested by the International Economic Policy Association. Reorientating the program from loans to providing only U.S. goods and services would reduce the dollar outflow arising from the aid program.

6. As pointed out in the agriculture section of this report, greater emphasis must be put on strengthening the competitive position of American agriculture. One of the best ways to solve our balance-of-payments problem is through expansion of our commercial agricultural exports.

We also believe that more attention should be given to increasing dollar sales under the Public Law 480 program, possibly by amending title I to require at least partial payments in hard currency, except in those cases where a waiver would be clearly in the national interest.

B. Preventing a Run on Gold

1. Immediate contingency planning is necessary against the possibility—however unlikely it may appear at the moment—of a devaluation of sterling. If sterling falls, the dollar will be in serious jeopardy.

Such steps might include further strengthening of the credit facilities available to Britain in case of a renewed crisis or a funding of official sterling liabilities, possibly in the IMF. Both approaches present problems, but they are far less difficult than those which could follow a sterling devaluation.

2. Negotiations should be begun on cooperative means to restrain the convertibility of existing dollar balances into gold. Proposals to this effect have been made by a number of prominent economists, notably Prof. Robert Triffin of Yale. We urge the administration to give immediate consideration to the alternative plans that have been offered and to propose a broadening of current international monetary discussions to include this subject.*

C. Longrun Strengthening of the International Monetary System

1. We urge the administration to press on toward agreement with the other members of the Group of Ten and the International Monetary Fund on a contingency plan for the creation of new reserve assets.

2. We commend to the administration the report on the international adjustment process produced last year by Working Party III of the Organization of Economic Cooperation and Development. A strengthening of the adjustment system reduces the need for reserve assets and helps prevent a proliferation of damaging restrictions and controls on trade and payments. We urge the administration to follow through within the OECD on the implementation of the major recommendations of that report.

3. We also urge that the administration give serious consideration to proposals which have been advanced that would provide greater flexibility in exchange rates. While we believe that freely floating exchange rates would be highly unsettling to international traders and investors, we do feel that some modification in the system of fixed exchange rates could have desirable consequences by giving market forces a larger role to play in adjusting payments imbalances.

One of the most promising approaches appears to be a widening in the band of permissible exchange rate variations around parity. We see no justification for an outright rejection of the approach simply because it represents a modest departure from the Bretton Woods tradition. We hope that the administration will give this idea open-minded and thorough consideration in its explorations of new approaches to improving the international monetary system.

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*See discussion of these plans in "Contingency Planning for U.S. International Monetary Policy," published by the Joint Economic Committee in December 1966.

INTERNATIONAL ECONOMIC RELATIONS AND U.S. FOREIGN TRADE POLICY

*A. The Kennedy Round**

Since 1962 the focus of U.S. international trade policy has been the sixth round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), the so-called Kennedy Round. In terms of the tradition of such negotiations, the Kennedy Round was very different. It promised to simplify the process of negotiation by introducing new concepts of negotiation across the board with few exceptions according to agreed percentages.

The new round of negotiations was an equally bold political conception. The ideas that by reducing the common external tariff of the European Economic Community (EEC or Common Market), significantly modifying its nascent common agriculture policy, and at the same time drawing Europe ever more tightly into a comprehensive Atlantic community, were the significant motivations of the Kennedy Round.

In terms of its original economic and political goals, the most one can hope from the Kennedy Round is a modest success, which is regrettable since freer trade promotes consumer choice and a more stable price level. In spite of the fact that it has been the forum for valuable new efforts in fields such as agriculture and nontariff barriers, it has run aground on the shoals of increasing European economic independence, of a new spirit of national awareness, and of waning momentum of the drive toward political community through economic cooperation.

B. Should the Trade Expansion Act be Renewed?

The President's authority to reduce U.S. tariffs by 50 percent through trade negotiations will expire on June 30, 1967. After 4 years of negotiations under the authority of the Trade Expansion Act, it has proven very difficult to make Europeans share the sense of urgency that this time limit imposes.

The June 30 deadline is a real one for very logical reasons. When the Trade Expansion Act was enacted by Congress in 1962, it was considered on the basis of principle. Now, almost 5 years later, the meaning of these principles has become very specific and immediate. American industries and labor know about U.S. offers for negotiation and of the offers and exceptions of other participating nations. Some industries and unions have forcefully expressed their opposition to negotiations which they believe will either harm their commerical interests, or at best have a neutral effect by increasing some of their exports and increasing some imports.

These are the reasons why the Trade Expansion Act would not emerge intact from the legislative process—renewal of the Trade Expansion Act as we know it today is an impossibility. Even were it possible to renew the act, we believe that it would not be desirable to do so. The trade negotiations have dragged on for 4 years. There is no point prolonging them when all that is required is a political

*See also Agriculture in the Kennedy Round of negotiations under "Strengthening Agriculture."

decision to complete bargains. These decisions can be taken now, and we urge our trading partners to come forward willing to make trade agreements that are meaningful in trade terms.

C. Reciprocity

The pressure to conclude a satisfactory Kennedy Round, the almost inevitable tendency to want to produce a success in the full sense of the high hopes surrounding passage of the Trade Expansion Act, should not be allowed to lure the United States to weaken its insistence that the bargaining be conducted on the basis of strict reciprocity—the balancing of concessions between countries on the basis of their trade value.

In the trade negotiating rounds since the Second World War, the United States, in the interest of European economic recovery and Atlantic cooperation, gave more than it got. It is a mark of the new organization for conducting U.S. foreign trade policy—the Office of the Special Representative for Trade Negotiations—established under the direction of Governor Christian A. Herter—that reciprocity was firmly established as a guiding principle. Though the Trade Expansion Act itself requires only "mutual benefit" from the trade negotiations, this term has been interpreted to mean reciprocity, and this interpretation should be sustained in an age when industrial nations around the world are able to compete successfully in U.S. markets in terms of price, technology, and quality.

D. Imports and the American Economy

The United States has relied heavily on surpluses in the merchandise trade account to reduce the U.S. payments deficit. In 1964 the trade surplus rose to over $6 billion, a record achievement made possible partly because of European economies' tendency toward inflation. But by 1966, the trade surplus had fallen to $3.7 billion with imports valued on a free-on-board basis and exports valued on a cost, insurance and freight basis. For the year, U.S. exports increased by $3 billion or 11 percent over 1965 to total $29.2 billion. U.S. imports increased by $4 billion or 19 percent over 1965 to total $25.5 billion.

In spite of the continuing increase in total U.S. exports and high levels of domestic demand, some industries have claimed damage from imports. A moderation of strains in the domestic economy would temper the volume of imports in such industries as textiles and steel.

The strong competition from foreign-made goods has brought home the need for continuing emphasis on reciprocity in trade negotiations and particularly for balance-of-payments reasons. But it has also brought home the need for concentration on eliminating from international competition certain unfair elements, such as export subsidization, cartelized selling, unfair taxes on imports such as the European "road tax" which discriminates against U.S. automobiles. These problems will require a new emphasis in U.S. trade policy and negotiation, and measures to rectify such inequalities should be a major part of any new trade legislation.

Among the efforts in the nontariff area which should receive special attention by the President's Special Representative for Trade Negotiations, we urge the development of an international code to harmonize antidumping laws and procedures of trading nations. In the

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past we have called on the U.S. Government to negotiate an international agreement that would harmonize the operation of the antidumping laws and regulations of major trading nations. We urge a continuation of efforts to seek agreement on such a code. The goal of an international antidumping agreement is a realistic one, and through it a nontariff trade problem common to all major nations will be solved.

E. What Trade Policy "After" the Kennedy Round?

Administration thinking about the nature of future trade policy has been largely held in abeyance. Effort has been concentrated on the completion of the negotiations at hand. This is understandable, but it cannot excuse a lack of concern for future policy. Some have suggested that a new trade law and policy should await a new presidential term—that is, that any new initiative should be put aside, in favor of a "holding operation."

We believe that the administration should move immediately toward the formulation of a new trade policy that would be embodied in new legislation giving the Executive policy directives and enough authority to deal constructively with contemporary and future trade problems.

We believe such constructive legislation is needed for at least two reasons. First, the United States cannot allow itself to take a relaxed and passive posture on international economic and commercial relation in a period of rapid and continuing change. Second, new legislation would give a coherence and purpose to U.S. international economic policy, making it possible to prevent attempts to enact special economic measures for individual economic groups.

F. Elements of New Trade Legislation

New trade legislation should provide policy direction and authority to deal with at least the following: (*a*) there should be continuing emphasis on agriculture directed toward creating actual conditions of competition in a sector of trade that is highly controlled by all governments; (*b*) a new emphasis on nontariff barriers to trade. Congress should define new priority areas for negotiation and give authority to the President to negotiate within prescribed guidelines; (*c*) there should be some authority to negotiate international agreements to trade within industrial sectors; for example, the steel sector, where true international competition is impaired by cartel selling, special national measures for coal and steel producers, and export subsidization; (*d*) there should be a major emphasis on the trade problems of the developing countries, an area of tremendous importance; (e) the adjustment assistance provisions of the Trade Expansion Act should be made effective.

In developing new trade legislation, attention should be given to a review of the most-favord-nation principle and its continued application in the light of new regional arrangements and the problems of less developed countries.

Trade legislation should also be framed to leave open the door for a new trade policy should Britain fail in its current attempt to enter the European Common Market.

G. Congressional Role in Trade Policy Formulation

During the past year and a half many private groups have concerned themselves with debating the direction and nature of new U.S. trade policy. This public discussion and concern has produced useful recommendations, but it needs focus. We strongly recommend that the Joint Economic Committee hold hearings on international trade this spring. As a point of departure, these hearings should be focused on the President's trade report and need not concentrate, except tangentially, on the Kennedy round, thus avoiding excessive public probing of what are increasingly delicate negotiations.

H. Better Administration of Trade Policy

U.S. trade policy is only nominally centered in the Office of the Special Representative for Trade Negotiations. Many other departments and agencies have foreign trade responsibilities and concerns. As an interim but very important objective, the scope of competence of the special representative, who is appointed under authority of the Trade Expansion Act, should be broadened to enable him with a small but high level staff to coordinate all aspects of U.S. trade policy so as to impose coherence where none now exists.

Christian A. Herter, former Republican Member of Congress, Governor of Massachusetts, and Secretary of State, as first special representative for trade negotiations, devoted the energies of his last years to establishing the Office of the President's Special Representative for Trade Negotiations upon a solid foundation of integrity and sound procedure. He represented at its best enlightened, responsible Republican internationalism. His careful use of the substantial powers delegated to him, his steady guidance and statesmanship, are severely missed.

I. A New Role for GATT

The United States should reexamine the work of the General Agreement on Tariffs and Trade (GATT). GATT was established 20 years ago in Geneva as part of the effort to insure that the postwar world could not again devolve into the economic chaos that characterized the prewar world. Thus the GATT was initially intended to take its place among international organizations such as the International Monetary Fund and the International Bank for Reconstruction and Development, institutions which over 20 years have demonstrated their utility beyond doubt. But GATT has remained merely a document with a small but able secretariat to arrange meetings nations call under its articles.

But GATT has a very real, very immediate role in world trade. As a document, it established rules of fair competition in international trade that benefit everyone. Now more important than ever, it is perhaps the one international organization that has an immediate chance to correct the trade problems of the developing countries.

But the United States has steadfastly refused to face this issue squarely by asking for a budget item to pay for the U.S. contribution to the dues of the GATT. Instead, the payment has been hidden in a contingency item of the State Department appropriation. The result was that last year the United States almost alone opposed a modest increase of the GATT expenditures when the poorest developing countries were willing to raise their own contributions.

J. A World Conference on Trade

In 1967, the 20th anniversary of the General Agreement on Tariffs and Trade, the United States should press for an international convocation of GATT members, including parliamentary representatives, and observers from non-GATT nations, to reexamine the role of the GATT in today's world. The ideal occasion would be the annual meeting of the contracting parties of GATT, a meeting that will be held in the fall of 1967. The 20th anniversary convocation of GATT is needed for a number of reasons: It would present an opportunity to assess the future of the organization and of its rules after the extremely trying episode of the Kennedy round. It would be an ideal time to face squarely at ministerial level the problems of developing country trade. It would serve again perhaps to reemphasize the principles of open trading on which GATT is based and which we believe continue to be important.

K. East-West trade

There has been great interest among many groups in the broadening of trade contacts with Eastern European countries. In order to develop a sound national policy on this matter we believe it important that competent committees of Congress hold thorough and objective hearings on this subject.

GUARANTEEING OPPORTUNITY TO THE DISADVANTAGED

The idea of guaranteeing a minimum annual income to all Americans has received considerable attention in recent years. In his 1967 economic message, President Johnson indicated that he would appoint a commission to examine the wide variety of proposals which have been made.

We welcome the coming appointment of this commission. If its studies are scholarly and objective, it can make a major contribution toward resolving what is certain to become an important issue of public policy. While we do not at this time take a position either for or against the guaranteed minimum income,* we want to state some basic questions which we hope the commission will consider.

At the same time, we want to offer some proposals on guaranteeing opportunity for all Americans. Whatever the outcome of the debate on the guaranteed annual income, there must be continuing progress towards opening the doors to opportunity in order that all citizens have an equal chance to become self-supporting and self-respecting.

Questions on Guaranteed Income

First, to what extent will common agreement be possible in the support and implementation of a guaranteed income? Assuming both the economic and political feasibility of some plan of guaranteed income, would this assure sufficient and broad enough support to avoid disruptive conflict and social disorganization?

Specifically, can a right to income without work be adopted without creating deep cleavages and conflicts in our society? Is it possible to have a dual set of values and norms; one predicated on income for work and one on income without work? Isn't it possible that the existing gulf between the middle-class culture and the subculture of poverty will be deepened and problems of national cohesiveness and accommodation be aggravated?

* Senator Miller is opposed, and the questions posed in this section of the report reveal some of the reasons for his position.

Any social system is composed of many interrelated units and functions. Any drastic change in one part of the social system will affect the total in many unforeseen and unpredictable ways. We have never been able to predict the total impact of change. Increasingly and frequently we have learned that the treatment of a social problem may produce additional problems and, in the final analysis, the treatment may be worse than the disease.

Might Perpetuate Poverty

Second, is it possible that such a plan might help to perpetuate welfare as a way of life by sacrificing social services designed to eliminate the causes of need for an income guarantee? Proponents of guaranteed income plans sometimes fail to distinguish between those families and individuals who could and would make good use of an interim guaranteed income grant and those who would not. They also fail to distinguish between those in poverty and those who lead decent lives, although having no margin for waste or luxury. Should we create a costly program that would spread our resources over both groups without regard to social priorities or the likelihood of productive use of those resources?

The provision of this "social conscience money" could lull us into a sense of complacency about the poverty problem and divert our attention from the critical need to provide remedial services to the hard-core poor.

Slow the Rate of Growth

Third, would the guaranteed annual income slow down the rate of economic growth by reducing incentives to work and save? Automatically providing an adequate minimum standard of living to any citizen might be sufficient to eliminate incentives to work for most of those unemployed or those earning less than the minimum standard level. Those who earn only slightly more than the minimum might also decide not to work at all. Admittedly, the adverse incentive effect differs among plans, but in every instance there is at least some negative incentive effect. The result could be a lower gross national product and a lower rate of economic growth than would otherwise exist.

Economic growth also might suffer to the extent that a guaranteed annual income weakened incentives to save. With an annual income assured, the future for many individuals would become more certain. Families might be less likely on the whole to save for emergencies, retirement, death, and disability. The pressure on business to make substantial contributions to employee pension funds would also be less urgent, and this source of capital accumulation could decline sharply as well. The result might be a higher rate of current consumption, less saving, and a slowdown in the modernization and expansion of plant and equipment.

Might this pose a direct threat to employment opportunities for all those able and willing to work? Such opportunities directly depend upon a high level of investment in the future. The creation of new jobs for our rapidly growing labor force requires substantial growth of investment spending. Moreover, increasing technological progress raises the amount of capital equipment per worker and thus the investment costs of keeping a worker employed and providing the new jobs.

Fourth, are the programs administratively feasible? Specifically, how would the problems of defining income, fluctuating income and definition of the filing unit be handled? What weight would be given to wealth or assets in determining entitlement to a Federal payment?

The problem of defining income would not be feasible by merely referring to the Internal Revenue Code. For example, if "economic income" is the test, a person would have to compute adjusted gross income for regular income tax purposes and then add back items excluded or deducted in computing adjusted gross income. The 50 percent of long-term capital gains excluded from adjusted gross income and tax-exempt interest are examples. The deduction for charitable contributions would have to be added back—otherwise these would, in effect, be paid by general taxpayers. Similarly, a deduction for real property taxes on a home would have to be added back to prevent discrimination in favor of the homeowner over one who merely rents a home or apartment.

How To Guarantee Opportunity

Progress in helping America's disadvantaged citizens must not be delayed while debate continues on the desirability of some form of guaranteed minimum income. Our emphasis is therefore on how to guarantee opportunity.

One of our first jobs is to make certain that we are spending health, education, and welfare funds with the greatest efficiency possible. Much of our antipoverty effort today is wasteful, redundant, and ineffective. Before even considering vast new outlays on programs such as the guaranteed annual income, we should be certain that we are making the best possible use of the funds now being spent.

In this connection, it is essential to review existing policies and programs to determine the extent to which they actually impede the war on poverty. For example, our urban renewal programs have primarily benefited the middle third of the Nation, while many of the poor made homeless by these programs have been pressed into other slum areas or areas about to become slums. Our farm programs have poured out hundreds of millions of dollars, but rural poverty persists, and there is evidence to indicate that the distribution of income has actually been worsened under the administration of our agricultural programs. Certainly they have done little or nothing to improve the quality of education or to update the skills of our rural citizens who are particularly handicapped in the urban environment.

The Effects of Present Programs

We also ought to determine whether the application of our child labor laws may contribute to the unemployment of young people. At the same time, we need to know more about how the minimum wage laws contribute to unemployment among less skilled workers and how our tax laws impede geographical mobility. Another field for study is the tax treatment of individual educational expenses and its impact on upward job mobility. Our unemployment compensation program also could be improved to assist in the reduction of poverty. For example, under the encouragement of the Manpower Training Act of 1962, all States now permit an individual to take training without loss of unemployment benefits. However, we still do not relate improvement of the unemployment insurance system to improvement of our training, rehabilitation and retirement programs and correlate these programs.

We already know the poverty-creating effect of the present income limitations applied to those aged persons receiving social security retirement or survivor's payments. We should now determine how much the income-limitation should be increased. We need to know more about whether the aid to dependent children program actually encourages illegitimacy by discouraging remarriage of an AFDC mother, and whether the so-called "man in the house" rule, in effect, contributes to the break up of families and the perpetuation of poverty. We also need to review the extent to which public assistance programs create an incentive for beneficiaries to withdraw from the labor force because of the deduction of earnings from benefits received.

The Role of Economic Policy

In addition to taking a hard look at present programs and policies, we must remember that economic policy has an important contribution to make toward eliminating poverty. This means that we must strive to maximize economic growth which results in increased wealth both to provide jobs for our rapidly increasing labor force and to have resources available for the fight against poverty.

It also means that we must avoid inflation. The constant erosion of the purchasing power of the dollar since the end of World War II has pushed millions of individuals living on fixed incomes below the poverty level and made life even more difficult for those already impoverished. Because of inflation, the purchasing power of social security benefits, even after several increases, has barely kept pace with the rising cost of living.

Economic policy also can make a contribution to the elimination of poverty by promoting occupational and geographical mobility. In an age of rapid technological change and adjustment, it is important that Government and private business policies help to promote the maximum of flexible response to changing conditions among our labor force.

There is another precondition to the success of specific and selective antipoverty measures. That is, the abolition of all unjustifiable discrimination in employment and education based upon race, creed, age, sex, physically handicapped, or whatever.

In this connection, it is vital for labor unions to open their doors to equal membership opportunities to all persons, particularly to members of minority groups. In many places and in many jobs, union membership is a condition of apprenticeship or employment from a practical if not a legal standpoint. Where this is true, business efforts to find job opportunities for minority Americans can be successful only to the extent that labor unions, with the cooperation of management, not its behind the scenes condonation or encouragement which frequently exists, abolish discriminatory practices in their own membership and training programs. Today the values which occur from passing skills from father to son, as it were, must be realized within a structure which does not exclude others from learning and following these occupations.

Specific Antipoverty Remedies

Aside from these general considerations, specific policies to combat poverty must emphasize alleviation, rehabilitation, and prevention.

Alleviating poverty means that every person in need, which means a person facing a basic economic problem the solution of which is beyond his own or his family's capabilities, should have relief from the community as a whole.

One of the shortcomings of our present public assistance programs is that benefits are unrelated to specific needs and so are frequently too low to meet even minimum needs established by the States themselves. In other instances, States continue payments after the specific needs have actually disappeared or are within the ability of the individual to make them disappear. Rehabilitative social services are the essence of good welfare programs. The purpose of welfare is to provide income during the period a person is getting onto his own feet again, or getting onto his feet in the first instance.

Our public assistance programs also bypass many of the poor. The Federal Government today shares the cost of aid to the blind, aged, permanently disabled, and families with dependent children. Persons not fitting neatly into one of these categories are dependent on State and local general assistance. In 1964, such general assistance provided an average of $7 a week in support for about 800,000 persons.

There is no justification either for providing assistance by categories or for the Federal Government participating in one group and not another. The problems of determining eligibility for a particular category of assistance is costly in terms of funds and precious professional time which could be better spent in improving social services. We would favor abolishing all categories of assistance and providing aid on the basis of demonstrated and specific need to the unemployed or underemployed poor whose income falls below minimum standards, geared to programs designed wherever possible to getting them onto their own feet.

Rehabilitation Necessary

Rehabilitation—our second goal—involves making an all-out effort to make productive and self-sustaining citizens out of all those unable to find or keep a job. This means that everyone of labor force age who is on public welfare—a money income to which our laws give them a right—should have a responsibility under these same laws in return for this right. This responsibility is to take any necessary training or basic education needed to equip themselves to be self-supporting. In order to provide a positive incentive to train or work, we would reduce public assistance benefits substantially less than the added income arising from wages or the training allowance.

The importance of education is illustrated with respect to the aid to dependent children program. The higher the educational attainment of the mother, the less the period of dependence on public assistance. This points to another area where rehabilitative services could be critical in getting families off the relief rolls and into the ranks of jobholders.

Mothers on aid to dependent children should be encouraged to take basic education and training in job skills. This requires that they recive training allowances and access to day-care facilities for the children. Not only would such centers free the mothers for education and training, but they could provide a creative and enriching experience for the children themselves.

The gloomy predictions about the job-destroying effects of cybernation are unjustifiable. Much of the work of society is not being done today. Our rehabilitative programs should strive to get these jobs done through working with the job-creation process of private enterprise, even to the extent of providing incentives if this proves to be necessary.

Jobs Which Need Doing

Reforestation, stream clearance, urban beautification, slum cleanups, various educational work-study jobs and even simple maintenance jobs in public buildings are examples of the kind of interim work that could be usefully done by the unskilled and poorly trained. These tasks could be undertaken by private firms under contract to the Government with a guarantee that at least the minimum wage would be paid. Not only would this get needed work done, but it would give the former welfare recipient personal satisfaction plus skills and work attitudes that would stand him in good stead in his future employment.

We should also remember the physically handicapped. They pose special problems but in most cases rehabilitation is possible and, in some ways, simpler than for those who suffer serious cultural and educational handicaps. Indeed, by studying the techniques that have proved successful in rehabilitating and habilitating the physically handicapped, we can learn a great deal in properly structuring the programs for the culturally or educationally handicapped.

Obviously, this covers only a part of the rehabilitative action that is needed. A wide range of social services is needed, and to a large degree is presently available, to advise the poor on legal problems, family budgeting, simple health care, and the like.

Prevent New Poverty

Our final goal is the prevention of new poverty. Here the focus should be on all children, not just those of the poor, with the objective of minimizing school dropouts who later become the unemployable adults. It has been said many times before, but it bears repeating, that the key is high-quality education and training, all along the rungs of the ladder of skills.

Technical training is just as socially important and accordingly should be as socially dignified as liberal arts training. In many important educational and social circles there has been an unfortunate downgrading of vocational and technical training which has been a deterrent to getting both the number and quality of persons needed into these fields.

The schools for both urban and rural disadvantaged children should be among the best in the country. Who needs good schools more than the children of the poor? Although the situation is improving today, schools in poverty neighborhoods are very often among the worst the country has to offer.

A clean, attractive, well-equipped and well-staffed school in a deteriorating neighborhood could serve as an example and an inspiration for many of our disadvantaged children. Both public and private educational groups should direct their attention to improving the quality of schools in poverty neighborhoods.

The States should update the school-grant formulas in their equalization laws which take into account the costs involved in educating children in school districts with low-tax bases. Many counties in the United States need to develop equalization laws because within counties just as within municipalities or States there are school districts of low wealth and districts of high wealth. The differentials in these tax bases need to be equalized.

Preschool training

Breaking the poverty cycle often requires preschool training. The accomplishments of the local and private Headstart program, which the Federal program properly emphasized, indicates that the States are correct in developing these remedial preschool programs on a large scale in poverty areas. Our goal should be preschool education, first for the culturally deprived but ultimately for all American children.

Perhaps the highest priority for the prevention of poverty should be given to providing birth control information to public assistance recipients on a voluntary basis. A broad program to make available birth-control information would encourage family planning and reduce the incidence of unsupportable children among the poor. We believe that helping the poor control the size of their families offers a key opportunity for halting the growth of poverty.

We should also do something for young people who are of working age but who are neither in school nor in a job, those for whom the educational and welfare reforms have come too late. We should consider a pilot plan which might mean some subsidization to their employment by private business based upon a comprehensive study of what is already being done in this area. This could involve a program under which business would provide work at less than minimum wages for young people who would not otherwise be employed. The actual wage could be based on an estimate of their productivity and their value to the firm in relation to other employees. In addition, a direct Government supplement would be paid to such employees in order to bring them up, if necessary, to a minimum wage. Obviously such a plan would involve administrative problems, but we think it is worth considering. It might well speed the movement of people needed in occupations paying low wages and thus increase the demand for labor in such areas.

These, then, are some of the possible approaches to guaranteeing opportunity. Obviously there are many others. One thing is clear. The magnitude of the task is immense and requires a continuing effort by the private sector and understanding by all levels of government so that their programs work in conformity with and not against the operation of the private sector.

Guaranteeing opportunity has many advantages. It is positive and assumes that every individual should, and will if the climate is right, make a contribution of his own. It challenges our ingenuity to find ways and means for maximum utilization of our human resources. It 's consistent with our value system and what we think we know about human behavior. It would be supported with great public consensus. And it would tend to protect the balanced mechanism of freedom with responsibility.

STRENGTHENING AGRICULTURE

The only thing said by the President about agriculture in his Economic Report for 1967 was that "net income per farm rose more than 10 percent" and "we will continue to manage farm programs to assure adequate supplies as well as equitable returns." Such superficial treatment of the serious problems of the agricultural sector of the economy compels comment, especially in light of the February 20, 1967, admission by the President at a Washington meeting of farm leaders, that: "I know that farmers have been caught in a bind between high implement prices, high interest rates, and stable or lowering prices for farm commodities."

Net income per farm appeared to rise 10 percent, but, measured in real dollars, the rise was under 7 percent. Moreover, the number of farms sharing the net income declined by 122,000 during 1966. At the same time the farm population declined by 900,000, and Federal programs to help bring industrial development to rural areas suffering population declines continued to prove inadequate.

Farm Debt Increase Greater Than Increased Net Income

What is especially alarming is the increase which occurred in farm debt. According to table B–79 on page 305 of the President's Economic Report, combined real estate and other debt of farmers increased $4.2 billion during 1966 (from $41.6 to $45.8 billion). This works out to an average of $1,220 increased indebtedness per farm; whereas the real dollar increase in net income per farm, according to table B–74 on page 299, amounted to only $323.

Naturally some farmers would be willing to endure additional indebtedness when incurred under a program of investment calculated to improve future net income from expanded or more efficient farm operations. However, the record over the past six years does not reveal improvement in net income commensurate with increased indebtedness. According to Table B–74, the accumulated net income per farm improvement over 1960 for the past six years amounted to $5,290. At the same time, net indebtedness per farm increased $4,540, leaving a net income excess of only $750 for the six-year period.

It is recognized that while farm debt has been going up, farm equity has been going up even more. But most of this increased equity represents inflated farm land values. Although these may offer a source of comfort to farm land owners, the fact remains that the farmer must still pay off his indebtedness. Without adequate net income to do so, he is left with no choice except to liquidate some of his equity or go out of business.

Looking at the farm economy as a whole, net farm income (in terms of inflated dollars rather than real dollars) increased by $900 million. At the same time, total farm debt increased by $4.2 billion. And almost all ($820 million) of the $900 million increase came from increased Federal Government payments to farmers—not from improvement in the market prices of their products.

Continued Cost-Price Squeeze

Under the administration's inflationary policies, costs of farm production increased $2.5 billion during 1966; farm land prices went up an average of 8 percent; and farmers found credit tighter and bearing the highest interest rates in over 40 years.

The fact of depressed prices of farm commodities is revealed in the parity ratio, which averaged 78 for 1966 as a whole and was down to 75 by the end of last year. Indications are that this is falling even lower. The administration and the Democratic Congress must bear the responsibility for these depressed prices. During the first 3 months of 1966, the Commodity Credit Corporation unloaded over 327 million bushels of corn on the market—well over twice the amount for the same period in 1964. Other price-depressing actions of the administration included action of the Department of Commerce placing export quotas on hides and action of the Department of Defense (on recommendation from the Secretary of Agriculture) reducing servings of pork products to servicemen by 50 percent and procuring pork and beef for our commissaries in Europe from European rather than the usual U.S. sources. Meat imports (including canned, cured, and cooked items, which were exempted from the import quota law due to administration pressure) increased by 263 million pounds, and there is every indication of a further increase in 1967. This will have a further depressing impact on the domestic livestock market. Imports of dairy products rose from 918 million pounds (milk equivalent) in 1965 to 2.7 billion pounds, and, with more dairymen selling their herds because of the worsening cost-price squeeze, our domestic milk production fell by 4 percent.

Administration's Apparent Cheap Food Policy Harmful to Farmers

It is becoming increasingly obvious to farmers that the administration has been following a policy of farm price depressing actions. It has sought to partially offset lower market prices received by farmers by Federal Government payments to farmers, taxing consumers to enable the Federal Government to make these payments. Obviously such a policy is inconsistent with the capitalistic economic system, which depends on the functioning of a reasonably free market. Moreover, the consumer's food bill is really increased by higher taxes. We recognize that the vicissitudes of weather and other conditions may, in some segments of the agricultural industry, require tax-supported programs which will provide farmers with a minimum level of price supports. But the programs should be so managed as to provide a floor, rather than a ceiling, for the prices farmers can hope to receive for their produce. Unless this is done, agriculture is bound to continue to receive less than its fair share of the national net income—especially during a period of inflation—and the long-range effect on our Nation's food production will be serious.

The Export-Import Picture

Under bipartisan legislative action, promotion of agricultural exports resulted in an increase from $6.6 billion in 1965 to $6.9 billion in 1966. Agricultural imports also rose—from $4 billion in 1965 to nearly $4.5 billion in 1966. However, this $2.4 billion favorable balance was the one bright spot in our overall trade balance, which fell from $4.8 billion in 1965 to $3.7 billion in 1966.

We recognize that foreign trade is not a one-way street. We are concerned, however, when imports of agricultural commodities take over an unfair share of the increase in our domestic market; and this is especially true in the case of commodities which are being produced efficiently by U.S. farmers. Thus, for example, imports of meat have risen from 735.4 million pounds in 1960 to nearly 1.3 billion pounds in 1966. Dairy imports have risen from 604 million pounds (milk equivalent) in 1960 to 2.7 billion pounds in 1966.

TABLE I.—*Agricultural imports*

[In millions of dollars]

	1964	1965	1966
Supplementary:			
Animals, live	56	117	118
Dairy products	62	73	93
Meat and meat products	483	525	713
All seeds and products	158	177	190
Sugar, cane	458	441	502
Tobacco, unmanufactured	89	130	127
Wool, apparel	115	157	157
Other	675	627	728
Total	2,096	2,247	2,628
Complementary:			
Coffee	1,207	1,064	1,080
Cocoa beans	131	139	140
Rubber, crude natural	201	182	177
Wool, carpet	90	71	72
Other	357	384	394
Total	1,986	1,840	1,863
Grand total	4,082	4,087	4,492

TABLE II.—*Agricultural exports*

[In millions of dollars]

	1964	1965	1966
Cotton, excluding linters	682	486	432
Dairy products	265	196	126
Feed grains, excluding products	856	1,134	1,339
Fruits and preparations	279	313	315
Soybeans	567	650	760
Tobacco, unmanufactured	413	383	482
Vegetables and preparations	156	155	176
Wheat and flour	1,532	1,183	1,535
Other	1,597	1,729	1,720
Total	6,347	6,229	6,885

TABLE III.—*Share of U.S. agricultural production exported, fiscal years ending June 30*

Commodity	Percent		
	1964	1965	1966
Wheat, including flour equivalents	75	55	65
Rice	64	56	55
Nonfat dry milk	62	44	37
Dried edible peas	49	60	68
Tallow	44	40	38
Soybeans	41	48	42
Hops	41	43	42
Rye	34	6	11
Cotton	32	30	21
Dried prunes	30	27	36
Lard	28	18	9
Dried whole milk	28	17	22
Tobacco	26	25	28
Cottonseed	23	32	19
Raisins	21	25	23
Dried edible beans	20	17	17
Grain sorghum	17	24	37
Barley	17	15	18
Flaxseed	11	27	15
Corn	11	15	16
Hides	45	47	47
Lemons and limes	9	10	10
Variety meats	9	10	10

Agriculture in the Kennedy Round of Negotiations

In our minority views in the 1965 Joint Economic Report, we warned of "the most critical uncertainties" facing American agriculture in the outcome of the GATT negotiations for the reduction of trade barriers. "If American farm exports are not to suffer a sharp decline," we said, "it is essential that the United States receive significant concessions on agriculture from the EEC."

These views remain unchanged 2 years later. We have been encouraged by the official position of the President's special representative for these negotiations, steadfastly maintained by the late Christian Herter and more recently reaffirmed by his successor Ambassador William A. Roth, that any trade agreement would have to include "meaningful concessions by the European Community with respect to their agricultural trade barriers." However, the time for negotiating agreements under the Trade Expansion Act of 1962 will expire June 30, 1967, and there is concern being expressed in agricultural circles that there may be a relaxation of the above policy in order to arrive at some agreement, rather than to await the outcome of congressional action extending the Trade Expansion Act.

A policy of "balancing the interests of agriculture and industry in these negotiations" is, of course, perfectly proper. But it will only be in the specific application of this policy, along with the requirement of "meaningful concessions by the European Economic Community with respect to their agricultural trade barriers," that the future of our agricultural exports will be assured. In this connection, it should be pointed out that the negotiation of an international grains agreement would not serve as a substitute for the "meaningful concessions by the European Economic Community." The stated purpose of our participation with major grain importing and exporting countries in trying to negotiate an international grains agreement is "to obtain improved access to major grain importing markets and stabilization of international wheat prices within a reasonable range." Under the proposals being discussed, base periods and fixed percentages would be provided, and these would have no relationship to reciprocal lowering of trade barriers with respect to industrial products.

TABLE IV.—*U.S. imports, 1964, 1965, and 1966*

[In millions of dollars]

	Total imports	Agricultural imports	Agricultural imports as percent of total imports
1964	$18,600	$4,082	22
1965	21,282	4,088	19
1966	25,408	4,492	18
1961–63 average			24
1964–66 average			20
From the European Economic Community:			
1964	2,831	258	9
1965	3,316	270	8
1966	4,098	306	7
1961–63 average			10
1964–66 average			8
From United Kingdom:			
1964	1,132	23	2
1965	1,403	24	2
1966	1,761	30	2
1961–63 average			2
1964–66 average			2
From Japan:			
1964	1,763	40	2
1965	2,401	37	2
1966	2,948	37	1
1961–63 average			3
1964–66 average			2
From Canada:			
1964	4,227	176	4
1965	4,813	234	5
1966	6,106	240	4
1961–63 average			5
1964–66 average			4

TABLE V.—*U.S. exports, 1964, 1965, and 1966*

[In millions of dollars]

	Total exports	Agricultural exports	Agricultural exports as percent of total exports
1964	$26,086	$6,347	24
1965	27,003	6,229	23
1966	29,912	6,885	23
1961–63 average			26
1964–66 average			23
To European Economic Community:			
1964	4,481	1,416	32
1965	4,904	1,476	30
1966	5,264	1,561	30
1961–63 average			32
1964–66 average			31
To United Kingdom:			
1964	1,445	440	30
1965	1,537	398	26
1966	1,645	471	29
1961–63 average			38
1964–66 average			28
To Japan:			
1964	1,894	720	38
1965	2,042	876	43
1966	2,312	942	41
1961–63 average			35
1964–66 average			41
To Canada:			
1964	4,653	[1] 615	13
1965	5,486	[2] 620	11
1966	6,487	[3] 626	10
1961–63 average			14
1964–66 average			11

[1] Includes $160,000,000 in transit shipments.
[2] Includes $176,000,000 in transit shipments.
[3] Includes $140,000,000 in transit shipments.

We have not yet made full use of our research resources in finding industrial uses for agricultural commodities. However, only a small part of the USDA budget for agricultural research service continues to be devoted to utilization; whereas the overwhelming portion relates to what might be called "production" research activities. We believe the emphasis should be better balanced.

Policy Recommendations

1. We renew our oft-repeated recommendation that the whole network of Government price-support programs be reoriented toward a strong market economy for agriculture: also, toward this end, the administration's doctrine of "supply management" should be abolished, since, as presently administered, this has amounted to an apparent "cheap food" policy to the detriment of the agricultural sector of our economy.
2. Establish sound inventory and reserve levels for all price-supported commodities, with disposal of Government stocks not to be permitted in a manner which disrupts normal markets.
3. Reorient the research activities of the Department of Agriculture to give greater emphasis to the development of new and increased uses for agricultural products.
4. Take action to encourage greater industrial and economic development in rural areas suffering a decline in population.
5. We repeat our call for the administration to follow fiscal policies which will stop inflation and, in turn, the continued rise in costs of farm production.
6. We repeat our urging that U.S. negotiators in the Kennedy Round of trade negotiations in Geneva continue to insist that U.S. concessions on industrial products be contingent on meaningful concessions with respect to our agricultural exports.

MEETING AMERICA'S URBAN CRISIS

No domestic task is more urgent than mounting an effective attack on the problems of America's cities. What we call the "crisis of our cities" is more than a single problem. It involves poor housing, air pollution, traffic congestion, crime, crumbling commercial centers, and discrimination against minority citizens.

The most hopeful sign of progress is that we are learning from our past mistakes. Above all, there now exists a widespread understanding that Government alone cannot solve our urban ills.

In the past, Government action may actually have impeded efforts to improve the urban environment. Federal aid has sometimes worked against local efforts—private and governmental. For years slum removal and public housing have been the primary focus of the Federal Government's activities. To get Federal aid, local officials often have been forced to direct their efforts toward these projects—no matter what the priority needs of the locality might have been.

Under the leadership of Congressman Widnall, Republicans have successfully contributed to a redirection of Federal efforts towards such improvements as a higher priority for low and moderate income housing, code enforcement and rehabilitation in the urban renewal field, and the use of existing private housing vacancies on a voluntary leased basis for public housing.

An effective attack on the problems of urban America now requires a joint effort by Government and the private sector. The talents and creative energy of private enterprise must be mobilized before solutions will be found to the many dimensions of the urban problem.

Imaginative proposals to enlist business in this effort have already been made.

Economic Opportunity Corporation

Five Republican Senators led by Senator Javits have proposed legislation to organize an Economic Opportunity Corporation, a Federally-chartered enterprise which would provide technical assistance and investment capital to encourage increased private sector involvement in activities designed to ameliorate urban and ghetto problems. The Corporation, which would have three Presidentially-appointed Directors on its 15-man board, would be profit-making and would be financed by private corporate and individual investors through the purchase of stock.

The organization would be chartered to enter a variety of fields, emphasizing the industrial and commercial development of ghetto and near-ghetto areas and manpower training. It would earn a profit by selling its technical and management assistance to city governments and private groups in order, for example, to enable them to start a shopping center in a ghetto area, pool their manpower training needs in a situation where a number of employers are unable to mount their own training programs, or by franchising businesses in ghetto areas which can provide residents with goods and services at reduced rates. The Corporation would, in appropriate cases, derive profit from equity investments of its own in such projects.

Percy Home Ownership Plan

Senator Percy has proposed the creation of a private, nonprofit National Home Ownership Foundation to enlist business, labor, the professions, and neighborhood and civic groups in a program to help make lower income families the owners of their own homes or apartments.

Fundamental to Senator Percy's approach is its reliance on nongovernmental initiative and action; its emphasis on making the advantages of homeownership available to those for whom it is now beyond reach; and its recognition of the need for involving low-income people themselves in carrying out self-help programs to improve their own communities.

The Foundation would have three essential functions:

First, it would make loans to local nonprofit associations for the rehabilitation of homes and their sale to residents;

Second, it would make available the technical and managerial assistance needed to enable the local associations to conduct sound and well-managed programs;

Third, it would assist local associations in obtaining the public and private resources needed for conducting or making available support-

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ing programs of education, job training, home ownership counseling, and the like, without which home ownership cannot be made a realistic possibility for lower income families.

The role of government would be primarily one of reinforcement and guarantee, rather than execution and control. Provision is made for eventual recovery of the modest government subsidy involved.

The Javits and Percy plans offer constructive approaches to the problems of the cities, and we urge that the Congress give them careful consideration.

We also support the establishment of the National Commission on Urban Living. Such a Commission could serve as a high-level bipartisan coordinating body working in cooperation with Government officials on the local, State, and National levels as well as with representatives of nongovernmental agencies involved in attacking America's urban problems.

NATIONAL EMERGENCY STRIKES

Recent labor disputes in key industries have demonstrated the lack of adequate Government powers to assert the public interest in disputes which affect the health and safety of the Nation or a substantial part of it.

A crisis of national proportions in the railroad industry was narrowly avoided in 1963, but may threaten again. Last year's airline strike paralyzed an important segment of the Nation's transportation system for many weeks. And other recent labor crises—particularly the New York subway strike—will not soon be forgotten.

If we learn nothing else from these unhappy experiences, it should be that the whole Nation or individual communities can be immobilized by key labor disputes and that Government is virtually powerless to do anything about it.

The airline and railroad disputes provided glimpses of another danger arising from lack of adequate machinery to protect the national interest when threatened by a labor dispute. In the rail work rules dispute, the Congress and the President together intervened to impose ad hoc arbitration, while in the airlines dispute, the President attempted to impose his view of a "fair settlement" on the parties—without much success. The dangers of such interference with private decisionmaking are obvious. Settlements dictated by third parties cannot solve the underlying causes of labor-management disputes, and often the intervention by a third party—other than a true impartial mediator—tends to delay rather than speed up the processes of permanent settlement. Certainly that was the case in last year's airlines strike. For lack of better machinery, moreover, we are edging close to a system of compulsory arbitration which is inconsistent with free collective bargaining and which is sought by neither labor nor management.

Legislation Needed

Legislation is needed to give the President new and critically necessary powers to protect the public interest in labor disputes of a national character, without in any way depriving the parties of the power to write their own collective bargaining agreements. A bill (S. 2797 in the 89th Congress) introduced by Senator Javits would establish machinery to accomplish this goal.

The bill would authorize the President to appoint a board of inquiry to make public recommendations for a settlement based on factfinding in cases where a labor dispute materially affects the national health or safety.

The President would also be authorized to order a 30-day freeze during which the parties would be required to bargain upon the recommendations. However, neither party would be required as a matter of law to accept the recommendations.

Finally, the President could seek appointment by a Federal court of a special receiver to operate the struck facility to the extent necessary to protect the national health and safety.

This bill would extend coverage of the emergency labor disputes provisions of the Taft-Hartley Act to controversies which, though they may not affect an entire industry nor imperil the health of the Nation as a whole, do affect interstate commerce and imperil the health or safety of a substantial part of the population or territory of the Nation.

The plan is a constructive proposal for providing maximum protection of the public interest with a minimum of Government interference with the collective bargaining process. Under the procedures of the bill, labor and management could bargain rationally and produce a settlement beneficial to both. At the same time, the public would be protected against harmful disruptions in key industries affecting the national health and safety.

In addition, a bipartisan group of 18 Senators has introduced a joint resolution (S.J. Res. 9) to require the Secretary of Labor to give the Congress his recommendations for improving existing emergency strike laws—recommendations which the President promised to deliver in the 1966 State of the Union message, but which have never been forthcoming.

In the absence of administration recommendations, we believe the appropriate congressional committees, or a joint committee, should undertake a careful study of emergency labor dispute problems and a careful evaluation and consideration of the proposals of Senator Javits and others, to improve the Taft-Hartley Act and the Railway Labor Act in order to give the public better protection, without damaging labor's traditional rights or undermining our fundamental collective bargaining institutions.

REVITALIZING STATE AND LOCAL GOVERNMENTS

During the past several years the problem of growing Federal control over decisionmaking at the State and local levels, particularly through the use of conditional Federal grants-in-aid, has received considerable thought and attention among Republicans.

Although Federal grants-in-aid have enabled the lower levels of government to expand functions that the Federal Government has designated vital, these governments have little influence on which projects are considered critical and often are required to direct a portion of their own revenues toward federally chosen projects, aggravating the shortage of funds available for activities in which the States and localities are vitally interested. For example, about 45 percent of the increase in Federal aid to the States over the last 10 years has been earmarked for highways and another 25 percent restricted to public welfare.

There are presently over a hundred different specific Federal grant programs, each with many conditions attached. Aside from increasing the complexity of State and local budgetary problems, this situation unavoidably leads to overlapping and waste, confusion of objectives, and inefficient administration at the Federal level.

The strengthening of State and local control over their own spending is essential in our Federal system of government. A level of government without effective control over directing its expenditures has essentially lost its identity and justification as a separate political entity. Those levels of government closest to the people are most responsive to their wishes and best equipped to most efficiently administer programs for the health, education, and welfare of their citizens.

In order to strengthen these governments to meet their increasingly heavy responsibilities, the trend toward fiscal centralization must be restrained.

CONCLUSION

New Directions in Economic Policy in the Coming Decade

To meet our public and private goals in the coming decade will require new directions in economic policy.

Consider the tasks before us. As a nation we have committed our will and our resources to the defense of freedom and an increase in individual opportunity around the world. We do this because it is right and because it is in the interests of our own national security and well-being.

At home we aspire to nothing less than an enrichment in the quality of life for all Americans. We seek to revitalize our cities, provide job opportunities for all those able and willing to work, root out poverty and discrimination and rid our environment of the pollution and ugliness that is often a part of the American scene.

These are worthy and proper goals. All Americans will share in them. But to aspire is not to achieve. To aspire is to take the first step. The question now is, where do we go from here?

One fact is clear. Recent experience raises serious doubts about our ability—under present policies—to meet our national goals quickly or all at the same time. Our Nation is wealthy, but even the wealthiest nation will overtax its productive ability if it asks too much of itself or fails to use its resources wisely and well. It is for this reason that we look with favor on Senator Javit's proposal for a National Commission on Economic Goals and a thorough review of the Employment Act of 1946 and the economic policy machinery established by it.

The rapid increase in prices which began in late 1965 was the direct result of excessive demand pressures created by over-expansionary Government policies, including the planned deficits of the administration and the Democratic Congress. Now the administration admits that we are in the beginning stages of a new wage-price spiral and that no early end to the problem is in sight.

What does this mean in practical terms? To millions of Americans, especially the poor, it means sharply higher living costs and a lower standard of living. It could also mean a slowdown in our economic growth, with fewer new jobs for our rapidly growing labor force. It could even mean a recession and higher unemployment as a reaction to imbalances in the economy caused by past Government policies.

Inflation a Threat

Looking to the future, our recent experience carries a sobering lesson. Inflation poses a continuing threat to the achievement of our national goals. If the administration or the private sector pushes too hard against available resources, prices rise, and the day of reckoning inevitably comes. We then must pull in the reins and frustrate the hopes of millions of our fellow citizens who have been promised a creative and continuing commitment to a better America.

Some might say that the only way out of our dilemma is to lower our sights, to settle for less. Personally, we think there is a better way. What does it involve?

First, it means cutting loose from the answers and attitudes which have largely shaped Government policy since the days of the great depression. Those who look to the past for the solutions to the problems of the next decade are doomed to disappointment and defeat. Our public housing program is just one example of the waste caused by attachment to worn-out dogma. It had taken nearly 30 years for public housing advocates to admit that wholesale destruction of substandard neighborhoods and construction of high-rise urban compounds perpetuates the poverty and slum conditions the program was designed to correct. We can no longer afford the luxury of stubborn resistance to change.

Second, it means that we must make more effective and efficient use of exisiting resources. Current programs must be examined carefully to make certain that they provide the maximum return for resources invested. Programs of marginal value must be trimmed back, and new programs adopted only after careful research and pilot studies show that they hold promise of producing solid results.

Too often the politically motivated desire for quick and dramatic results has meant wasteful experimentation on programs of dubious or marginal value. Promises that have exceeded performance have led to dashed hopes, disillusionment and even riots. Consider the poverty program. The war on poverty was launched before anyone knew how to fight it or before a well-prepared, experienced administrative staff could be recruited. The lack of understanding, preparation, and planning is now evident in the disillusionment of many of the poor and the inexcusable waste of scarce resources that might have been used more constructively.

Role of Private Sector

Third, the energy and creativity of the private sector must play a key role in meeting public problems in the coming decade. The imagination and capacity of private effort is already being demonstrated in the rehabilitation of slum dwellings in several of our large cities and in the training of the hard-core unemployed through the Opportunities Industrialization Center in Philadelphia. Such efforts must be expanded many times over. Government should act as a catalyst which stimulates and energizes the private sector to attack the Nation's social problems.

Fourth, increasing the growth potential of the economy must take first priority among our economic goals. Today the administration tells us that for the near future we must be content with a 4-percent annual increase in our capacity to produce. In effect, the administration has passively accepted a ceiling on growth.

The fact is that we cannot afford to stand pat if we want a higher rate of growth without inflation. Unless we do better than the 4 percent accepted by the administration, the resources required to meet compelling public and private needs will not be available when we want them.

To raise our productive potential we must—above all—actively promote policies to increase productivity. This means promoting better business management techniques, a continuing high level of investment in efficient and modern plant and equipment, more intensive research and development to spur new technological breakthroughs and more rapid application of space and military technology to civilian uses. Equally important, it requires more active public and private manpower policies to upgrade the skills, education and training of our work force.

This, then, is what we mean by new directions in economic policy in the coming decade: more efficient use of our resources, more direct participation by the private sector in solving public problems and a new and urgent emphasis on raising our productive potential and then making certain that we are making full use of that capacity. Nothing less will do if we are serious about meeting the goals we have set for ourselves as individuals and as a nation.

Representatives
THOMAS B. CURTIS
WILLIAM B. WIDNALL
DONALD RUMSFELD
W. E. BROCK 3D

Senators
JACOB K. JAVITS
JACK MILLER
LEN B. JORDAN
CHARLES H. PERCY

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

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

The work of the full committee and the subcommittees for the period February 1966 through February 1967 is summarized below:

FULL COMMITTEE

January 1966 Economic Report of the President

In February the committee held 7 days of hearings on the 1966 Economic Report of the President, receiving testimony from the Council of Economic Advisers, the Director of the Bureau of the Budget, the Secretary of the Treasury, the Secretary of Labor, the Commissioner of the Bureau of Labor Statistics, academic experts, and representatives of industry, agriculture, and labor. The printed record of the hearings, in four parts, contains in the final volume invited comments from organizations representing bankers, business, labor, agriculture, and economic research groups.

The 1966 Joint Economic Report

The annual economic report of the committee was filed with the Congress on March 17, the March 1 deadline having been extended by unanimous consent of both Houses of the Congress. This report also contains minority and supplementary views. (H. Rept. No. 1334, 89th Cong., 2d sess.)

Twentieth Anniversary of the Employment Act of 1946: An Economic Symposium

On February 23 the committee observed the 20th anniversary of the Employment Act with a day-long symposium which brought together many of the Nation's leading economists. This symposium sought to reassess the objectives of the Act and the uses of public policy instruments to obtain its goals. The symposium produced a valuable, objective evaluation of the Act and its administration over the years, and indicated wherein performance had fallen short, as well as what might be done in the future to improve it.

In conjunction with the symposium, the committee reprinted the "Employment Act of 1946, as Amended, With Related Laws and Rules of the Joint Economic Committee." This 20th anniversary edition contains a chronological listing of members who have served on the Committee since its inception and a bibliography entitled "The Employment Act of 1946 and Its Administration."

Twentieth Anniversary of the Employment Act of 1946: An Economic Symposium—Supplement to Hearing

The committee also solicited the views of a large number of experts who could not have been present to testify within the limitations of the one-day symposium in Washington, requesting additional comments focused particularly upon the future—"as to the direction which ought to be taken in administering and living with the act in the future." The committee received comments from 42 individuals and 3 organizations.

SUBCOMMITTEE ON ECONOMIC PROGRESS

Technology in Education

On June 6, 10, and 13 the subcommittee held hearings on "Technology in Education," receiving testimony from 11 witnesses. In addition to the oral testimony, the printed record contains various articles and statements on the subject of educational technology, together with a number of tables which were printed in the 1965 edition of a publication of the Department of Health, Education, and Welfare entitled "Projection of Educational Statistics to 1974–75."

Automation and Technology in Education

As an outgrowth of the hearings held in June, the subcommittee issued a report on "Automation and Technology in Education" as part of its broad study of investment in human resources. This report was designed to point up recent developments in this dynamic sector and delineate some of the current issues in the field.

State and Local Public Facility Needs and Financing

In January 1967 the subcommittee released a two-volume study of "State and Local Public Facility Needs and Financing" over the next ten years. Volume 1 projects estimated capital requirements over the next decade for essential public facilities; volume 2 analyzes the prospective sources of credit funds to finance construction of these facilities. This study was prepared for the subcommittee by experts from Government agencies, private industry, and trade associations and provides extensive material upon which informed judgments can be made.

U.S. Economic Growth to 1975: Potentials and Problems

This staff study contains an analysis by the committee staff of the potentials and problems of economic growth of the United States to 1975. It is one of a series of publications analyzing trends in the economy and the possible issues which the committee and other organizations, public and private, may have to face in the years ahead.

Federal Programs for the Development of Human Resources

In response to the subcommittee's questionnaire on human resource activities submitted to various Federal agencies, the subcommittee on March 12, 1967, released a three-volume study on "Federal Programs for the Development of Human Resources." This study provides a description of program objectives, history, level of operations, administrative operation and coordination, and expectations for 1970, as well as economic aspects and impacts of the program.

Members of the Subcommittee on Economic Progress were Representative Wright Patman (Chairman), Representatives Henry S. Reuss, Martha W. Griffiths, and William B. Widnall, and Senators William Proxmire, Herman E. Talmadge, Jacob K. Javits, and Len B. Jordan.

SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION

Economic Impact of Federal Procurement

In March the subcommittee issued a staff study entitled "Background Material on Economic Impact of Federal Procurement—1966." The materials contained in this report provide information on the scope and complexities of Federal procurement and related activities, particularly the military, and their impact on the economy. This study served as background material for the subcommittee hearings held on March 23 and 24. Witnesses were the Assistant Secretary of the Department of Defense, the Director of the Defense Supply Agency, the Administrator of the General Services Administration, the Comptroller General of the United States, and the Director of the Bureau of the Budget. Earlier, on January 24, the subcommittee heard the Secretary of Defense. Also included in the printed record of the hearings are extended answers to questions submitted by Senator Douglas after the close of the oral testimony and seven appendixes of pertinent materials.

In June the subcommittee issued a progress report entitled "Economic Impact of Federal Procurement—1966." This report was a followup to the recommendations made in the subcommittee reports since 1960, and emphasized the need for better management and utilization of the billions of dollars worth of supplies in Government warehouses.

Discriminatory Ocean Freight Rates and the Balance of Payments

The subcommittee continued its study of discriminatory ocean freight rates with hearings on May 6, and May 19. The subcommitted heard testimony from representatives of the Federal Maritime Commission, the Department of Defense, the Department of Commerce, the U.S. Maritime Administration, and the Department of the Navy.

In August the subcommittee issued its report on "Discriminatory Ocean Freight Rates and the Balance of Payments." This report was an outgrowth of the hearings held during the preceding 15 months, including those mentioned above, and is based on the testimony of Government officials and experts, steamship operators, labor union officials, and other interested parties. It reviews briefly the previous findings and recommendations of the subcommittee, examines the progress that has been made, and sets forth recommendations for the further improvements that are needed.

Members of the Subcommittee on Federal Procurement and Regulation were Senator Paul H. Douglas (Chairman), Senators John Sparkman, William Proxmire, and Len B. Jordan, and Representatives Wright Patman, Martha W. Griffiths, Thomas B. Curtis, and William B. Widnall.

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

Latin American Development and Hemisphere Trade

In March the subcommittee issued its report on "Latin American Development and Hemisphere Trade." The report was based upon prior hearings at which the subcommittee had heard from representatives of the State Department and distinguished observers of Latin American affairs.

Members of the Subcommittee on Inter-American Economic Relationships were Senator John Sparkman (Chairman), Senators Jacob K. Javits, and Len B. Jordan, and Representatives Richard Bolling, Hale Boggs, Henry S. Reuss, Martha W. Griffiths, and Thomas B. Curtis.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

New Directions in the Soviet Economy

The subcommittee's study of the Soviet Union was released on July 31, 1966. This five-volume work entitled "New Directions in the Soviet Economy" provides recent factual material and authoritative interpretative comment on all major phases of the Soviet Union's economic performance.

The subcommittee also maintained its continuing review of foreign economic policy issues, looking forward to possible hearings in 1967 after completion of the Kennedy Round of trade negotiations.

Members of the subcommittee on Foreign Economic Policy were Representative Hale Boggs (chairman), Representatives Henry S. Reuss, and Robert F. Ellsworth, and Senators John Sparkman, J. W. Fulbright, Herman E. Talmadge, Jacob K. Javits, and Jack Miller.

SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

New Approach to Unit'd States International Economic Policy

On September 9, the subcommittee heard testimony from 4 experts in the field of international economic policy on the general question: "Where does the free world go from here in its problems of international balance of payments and monetary reform in particular, and its international economic problems in general?"

Twenty Years After: An Appeal for the Ren'wal of International Economic Cooperation on a Grand Scale

Following the hearing held in September, the subcommittee issued its unanimous report which stated that it had "reached the conclusion that a dramatic new approach is necessary in order to infuse new life into negotiations to dispose of the unresolved issues on the international economic agenda." The report contains the subcommittee's recommendations calling for dramatic action to get the free world off dead center in five areas of economic negotiation and policy and to restore the strong spirit of international cooperation of the immediate postwar years.

Contingency Planning for U.S. International Monetary Policy

The subcommittee released a compendium of 17 statements from distinguished international economists on "Contingency Planning for U.S. International Monetary Policy." The contributors were invited to give their assessment of the course that U.S. policy should pursue in the event that agreement on international monetary reform should not be reached in 1967, or should be delayed indefinitely.

Members of the Subcommittee on International Exchange and Payments were Representative Henry S. Reuss (chairman), Representatives Richard Bolling, Hale Boggs, William B. Widnall, and Robert F. Ellsworth, and Senators Paul H. Douglas, William Proxmire, and Jack Miller.

SUBCOMMITTEE ON ECONOMIC STATISTICS

Government Price Statistics

In May the subcommittee held three days of hearings on "Government Price Statistics." These hearings were held to take stock of the progress which has been made in recent years by the statistical producing agencies, the uses being made and the reliability of the statistics guiding policy decisions today, tomorrow, and over the years to come. Witnesses were the Assistant Director for Statistical Standards of the Bureau of the Budget, the Commissioner of the Bureau of Labor Statistics of the Department of Labor, the Director of Agricultural Economics of the Department of Agriculture, and representatives of labor and private research institutions who have been engaged in the analysis of prices and price indexes.

In July the subcommittee issued its report which summarizes its findings and recommendations.

Inflation and the Price Indexes

In connection with its study of price indexes and the measurement of inflation, the subcommittee took advantage of the offer by the National Industrial Conference Board making available a privately supported study by Dr. Jules Backman, research professor of economics at New York University, and Martin Gainsbrugh, senior vice president of the Conference Board. The materials printed for the use of the Joint Economic Committee were subsequently republished by the National Industrial Conference Board.

Job Vacancy Statistics

On May 17 and 18, the subcommittee held hearings on "Job Vacancy Statistics." Witnesses were the Director of the U.S. Employment Service, the Commissioner of the Bureau of Labor Statistics, the Director of the Office of Manpower Analysis and Utilization of the U.S. Employment Service, and non-government individuals who have been making studies of the practicality of uses of such statistics. The printed record contains articles on job vacancy surveys conducted in Indiana and in Portland, Oregon, together with additional materials obtained from the Manpower Administration.

In June the subcommittee issued its report entitled "Job Vacancy Statistics," which contains a summary of the subcommittee's findings together with its recommendations.

Members of the Subcommittee on Economic Statistics were Senator William Proxmire (Chairman), Senators Paul H. Douglas, J. W. Fulbright, Herman E. Talmadge, and Jack Miller, and Representatives Richard Bolling, Thomas B. Curtis, and Robert F. Ellsworth.

SUBCOMMITTEE ON FISCAL POLICY

Tax Changes for Shortrun Stabilization

In March the subcommittee held five days of hearings on "Tax Changes for Shortrun Stabilization." Witnesses included the Assistant Secretary of the Treasury, individual economists, and representatives of labor, business groups, and private research organizations. These hearings focused on the need for and design of temporary tax changes which could be enacted promptly in response to a recognized need for stimulating or restraining the economy.

In May the subcommittee issued its report on "Tax Changes for Shortrun Stabilization," together with supplementary and dissenting views. The report summarizes the subcommittee's conclusions based on the hearings held in March on the use of prompt tax changes for countering inflation and unemployment.

Private Pension Plans

The subcommittee held 8 days of hearings in April and May on "Private Pension Plans," receiving testimony from Federal and State government officials, and representatives of business and labor. These hearings provided information on the role of private pension plans in an overall program of income protection for the aged.

Old Age Income Assurance: An Outline of Issues and Alternatives

In November the subcommittee released a staff document entitled "Old Age Income Assurance: An Outline of Issues and Alternatives." This study undertook to examine each of the special programs for the aged against the background of the old-age income assurance pattern that now exists. The subcommittee subsequently requested papers from a number of recognized scholars on various aspects of the system and plans to publish these in a compendium later this year.

> Members of the Subcommittee on Fiscal Policy were Representative Martha W. Griffiths (chairman), Representatives Hale Boggs and William B. Widnall, and Senators Paul H. Douglas, William Proxmire, Herman E. Talmadge, Jacob K. Javits, and Jack Miller.

OTHER COMMITTEE STUDIES COMPLETED SINCE MARCH 1966

In carrying out its duty to make a "continuing study" of the economy, the Joint Economic Committee from time to time releases for public information pertinent materials prepared for the committee under the direction of the staff.

Economic Policies and Practices

As a part of its continuing study in the interest of increased understanding of international economic policies within the framework of the enterprise and free market "rules of the game" as practiced by the leading industrial nations, the committee published Study Paper No. 9 entitled "Foreign Banking in the United States."

An Economic Profile of Mainland China

The committee's study of the economy of Communist China was released on March 5, 1967. This study explores such matters as economic policy, natural resources, capital formation, population, manpower resources, the structure of agriculture, industry, and other economic sectors. "An Economic Profile of Mainland China" parallels the several studies issued by the committee on the economy of the Soviet Union.

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee and subcommittees, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part in 1966:

American Bankers Association—Symposium on Business-Government Relations.
American Economic Association—Annual Meeting.
American Statistical Association—Annual Meeting.
Brookings Institution—Seminar for Business Executives on Federal-Government Policy
Civil Service Commission—Executive Development Seminars.
Department of State—Escort Interpreter Training Program.
Federal Statistics Users' Conference.
McGraw-Hill Informal Conference on Business Outlook.
National Bureau of Economic Research—Conference on Research in Income and Wealth.
National Industrial Conference Board—Economic Forum.
U.S. Department of Agriculture—Outlook Conference.
Upjohn Institute—Manpower Conference.

The executive director and other professional staff members made addresses or presented papers to the following groups:

American Society of Business Press Editors—National Meeting.
Business Equipment Manufacturers.
Financial Analysts Federation Conference—National Meeting.
Financial Analysts Federation, Nashville Chapter.
Forecasters' Club.
Insurance Investment Officers.
National Association of Home Builders—National Meeting.
National Association of Manufacturers—Civic Affairs Study Group.
National Association of Tax Administrators—Annual Conference on Revenue Estimating.
National Paint, Varnish, and Lacquer Association—Outlook Session.
National Taxpayers' Conference.
U.S. Department of Agriculture—Economic Development Division Seminar.
U.S. Department of Labor—Seminar on New Economics.

Conferences were held with high government officials or groups of foreign visitors seeking information on the activities of the Joint Economic Committee, representing the following nations:

Sweden	Japan
The Netherlands	Canada
Germany	Union of South Africa
Iran	U.S.S.R.
France	

Conferences were also held with Korean and Thailand students, as well as with student groups from the following colleges in the United States:

Amherst College
Bucknell University
Columbia University—School of International Affairs
George Washington Law Center
Stanford University—Stanford-Sloan Program

James W. Knowles was elected a fellow of the American Statistical Association and Donald A. Webster was appointed a member of the Council on Trends and Perspective of the U.S. Chamber of Commerce.

Student Interns

As usual, the committee participated in the student intern program by having college students working in the committee offices during the year.

CHANGES IN THE COMMITTEE STAFF

On January 25, 1967, John R. Stark was appointed executive director of the staff of the Joint Economic Committee and James W. Knowles was appointed director of research. Nelson D. McClung, economist for the Fiscal Policy Subcommittee, resigned to take a position with the Treasury Department. John B. Henderson and Daniel J. Edwards joined the staff as economists in the fields of international economics and fiscal and monetary policy, respectively. Mrs. Marian Tracy retired as financial clerk and Mrs. Esther S. Hickey was appointed to this position.

CHANGES IN COMMITTEE MEMBERSHIP

Senator Stuart Symington of Missouri and Representative Donald Rumsfeld of Illinois were appointed to fill the two existing vacancies on the committee.

EXPANDING THE MEMBERSHIP OF THE COMMITTEE

The appointments of Senators Abraham Ribicoff of Connecticut and Charles Percy of Illinois, and Representatives William S. Moorhead of Pennsylvania and W. E. Brock 3d of Tennessee filled the vacancies created by Public Law 90–2 expanding the membership of the Joint Economic Committee from 16 to 20 members. The majority party is now represented by 12 members and the minority party by 8 members.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the past year the Joint Economic Committee and its subcommittees issued 42 publications. Approximately 235,000 copies of current and previous committee publications were distributed during the year to fill individual requests. Committee publications are also on sale by the Superintendent of Documents. In the past year, individual and quantity orders of committee publications, current and past, were over 60,000, and 1,000 additional copies for business, research institutes, etc. This figure does not include the approximately 9,000 subscriptions to the committee's monthly publication, Economic Indicators, sold by the Superintendent of Documents.

COMMITTEE AND SUBCOMMITTEE PLANS FOR THE COMING YEAR

FULL COMMITTEE

Hearings on Economy of Mainland China.

Hearings on effect of Vietnam War on the U.S. economy.

A review of debt management policy.

Review of the Employment Act of 1946 and operation of full employment policy.

SUBCOMMITTEES

Economy in Government

SENATORS	REPRESENTATIVES
William Proxmire, *Chairman*	Wright Patman
John Sparkman	Martha W. Griffiths
Stuart Symington	William S. Moorhead
Len B. Jordan	Thomas B. Curtis
Charles H. Percy	Donald Rumsfeld

Federal procurement practices—continuation of subcommittee's previous work.

The Program-Planning-Budgeting System (PPB–S) in the executive branch.

The application of performance budgeting in the Department of Defense.

Effectiveness and relative priority of Government expenditure programs.

Economic Progress

REPRESENTATIVES	SENATORS
Wright Patman, *Chairman*	William Proxmire
Martha W. Griffiths	J. W. Fulbright
William S. Moorhead	Herman E. Talmadge
Thomas B. Curtis	Len B. Jordan
W. E. Brock 3d	Charles H. Percy

Financing municipal facilities—problems of the next decade (followup on 1966 studies).

Economic education—a review of the teaching of economics in the United States pursuant to Senate Resolution 316 of the 89th Congress.

Continue with study of human resources investment. The first phase—preparation of a complete compilation of Federal programs—has been completed. It is proposed to develop informed opinion through experts, and if time permits, to supplement it with hearings—preferably in the field of health or education.

Foreign Economic Policy

REPRESENTATIVES	SENATORS
Hale Boggs, *Chairman*	John Sparkman
Henry S. Reuss	J. W. Fulbright
William S. Moorhead	Herman E. Talmadge
William B. Widnall	Stuart Symington
Donald Rumsfeld	Abraham Ribicoff
W. E. Brock 3d	Jacob K. Javits
	Jack Miller

Status of trade agreements—new directions in international trade negotiations.

International Exchange and Payments

REPRESENTATIVES	SENATORS
Henry S. Reuss, *Chairman*	William Proxmire
Richard Bolling	Stuart Symington
Hale Boggs	Jacob K. Javits
William S. Moorhead	Charles H. Percy
William B. Widnall	
W. E. Brock 3d	

Hearings on contingency planning and the general status of negotiations on monetary reform.

Inter-American Economic Relationships

SENATORS	REPRESENTATIVES
John Sparkman, *Chairman*	Richard Bolling
J. W. Fulbright	Hale Boggs
Abraham Ribicoff	Henry S. Reuss
Jacob K. Javits	Thomas B. Curtis
Len B. Jordan	Donald Rumsfeld

A study of the domestic financial institutions and channels for savings within the developing countries of Latin America, as well as the obstacles to private domestic capital accumulation.

The subcommittee will continue to watch with interest the common market and trade developments in Latin America.

Fiscal Policy

REPRESENTATIVES	SENATORS
Martha W. Griffiths, *Chairman*	William Proxmire
Hale Boggs	Herman E. Talmadge
William S. Moorhead	Stuart Symington
William B. Widnall	Jacob K. Javits
Donald Rumsfeld	Jack Miller
	Charles H. Percy

Continuation of the pension study.

Analysis of the various proposals for revenue sharing with States and localities, including the so-called Heller plan, bloc grant proposals, and others.

Analysis of negative income tax, guaranteed annual income, and other proposals for income maintenance.

Current tax reform issues.

URBAN AFFAIRS

REPRESENTATIVES	SENATORS
Richard Bolling, *Chairman*	Abraham Ribicoff
Henry S. Reuss	William Proxmire
Martha W. Griffiths	Jacob K. Javits
William S. Moorhead	Charles H. Percy
William B. Widnall	
W. E. Brock 3d	

A broad study of basic economic problems of urban areas. As a first step, a compilation of expert opinions will be prepared.

ECONOMIC STATISTICS

SENATORS	REPRESENTATIVES
Herman E. Talmadge, *Chairman*	Richard Bolling
J. W. Fulbright	Martha W. Griffiths
Jack Miller	Thomas B. Curtis
	Donald Rumsfeld

The subcommittee hopes to look into the possibilities of a truly integrated system providing genuinely comparable statistics consistent with and meshed into an overall system of economic statistics including the Federal, State, and local governments.

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