THE 1974
JOINT ECONOMIC REPORT

REPORT
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
ON THE
FEBRUARY 1974 ECONOMIC REPORT
OF THE PRESIDENT
TOGETHER WITH
STATEMENT OF COMMITTEE AGREEMENT,
MINORITY AND SUPPLEMENTARY VIEWS

MARCH 25, 1974

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(III)
REPORT ON THE FEBRUARY 1974 ECONOMIC REPORT OF THE PRESIDENT

MARCH 25, 1974.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

REPORT

together with

STATEMENT OF COMMITTEE AGREEMENT, MINORITY AND SUPPLEMENTARY VIEWS

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

This report is submitted in accordance with the requirement of the Employment Act of 1946 that the Joint Economic Committee file a report each year with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the economic report. This report is to serve as a guide to the several committees of Congress dealing with legislation relating to economic issues.

NOTE.—Senator Sparkman states: "I am in agreement with the general emphasis of this Report. However, because of my duties as Chairman of the Committee on Banking, Housing and Urban Affairs, it has been impossible for me to participate fully in the hearings and deliberations underlying this Report. I do not believe it would be appropriate for me to take a position on all of the recommendations contained therein."

NOTE.—Representative Richard Bolling states: "Unusually heavy pressures of other responsibilities prevented me from fully participating this year in the hearings and Committee deliberations pertaining to the President's Economic Report. While I share the deep concern over the serious economic problems raised in this report, under present circumstances, I cannot endorse the particular conclusions and recommendations in this report."
JOINT VIEWS OF THE MAJORITY AND MINORITY MEMBERS OF THE JOINT ECONOMIC COMMITTEE

Budget Control

In implementing its decisions on how public resources are to be used and how priorities are to be ordered, the Congress must be able to control the Federal budget. Past efforts to alter the President's proposed budget have frequently failed. Realizing the need for change, the Congress has undertaken a major reform of the process through which it considers the Federal budget.

The impact of the budget on the economy must be estimated in the light of other aspects of economic policy, such as monetary and incomes policies. But we are especially concerned that annual tax and expenditure totals be calculated with full consideration of their impact on the overall level of output and employment and on the rate of inflation. The Joint Economic Committee has been reporting to the Congress on such matters annually since 1947. Any reform of the budget process should make use of the expertise developed by this Committee.

Determining overall expenditure totals will not alone be sufficient. In order for Congress to set national priorities, it is necessary to subdivide these totals to allocate funds among various activities.

In any given year a relatively small part of the budget can be altered. Every year since 1967 has seen a decline in the percentage of the budget considered relatively controllable. In the 1967 Budget, 42 percent was estimated to be controllable; in the 1975 Budget only 28 percent is estimated to be controllable. Programs tend to be enacted which commit the government to spending large sums not just for the current year, but for years to come. Often current year costs are small, but with future costs which will grow rapidly.

In order to make informed decisions about committing the government to future spending, the Congress especially needs two types of information: (1) the future cost of commitments under consideration and (2) the cost of commitments made in the past which must be honored at some time in the future. In recent years the Congress has become more insistent about being provided with the first type of information and has required the executive branch to supply five year cost estimates of legislative proposals. The second need remains unmet.

When developing information on the cost of new programs, tax expenditures should not be overlooked. Current practice allows tax expenditures to be enacted which remain largely unnoticed and unexamined for years. In 1975 these expenditures are estimated to cost about $78 billion.
Budget control legislation should include the following changes:

1. Congress should each year determine an expenditure total and the accompanying tax policy which will promote maximum employment, production, and purchasing power. A mechanism for periodic review during the course of the year should be included.

2. Expenditure totals should be subdivided so that funds for various activities will be allocated according to congressionally determined priorities.

3. The Budget should contain 5 year estimates of the cost of existing as well as new programs. A clear explanation of the assumptions underlying these cost estimates should accompany them. The tax expenditure budget, including 5 year cost estimates, should be printed in the annual budget document.

International Economic Policy

Monetary Policy

The dollar should continue to float in exchange markets, and the trend of this float should not be significantly influenced in either direction by official intervention. Furthermore, any international monetary reform approved by U.S. authorities should include for each International Monetary Fund (IMF) member, without the need for any type of prior authorization, the option of letting its currency float in exchange markets for as long as that member desires.

The dollar should continue to float because the maintenance of this policy is in the best interests of the United States and will produce a higher degree of international economic stability and fewer upheavals than a return to fixed rates. While intervention for specific purposes may be desirable, as is discussed below, all transactions by central banks in exchange markets should be within generally accepted guidelines. Moreover, dollar intervention should not affect the medium- or long-term trend in the external value of this currency.

Six distinct reasons can be given for a preference in favor of floating.

First, given the potential for large international capital flows, the preservation of independent monetary policies requires floating exchange rates.

If countries maintain fixed exchange rates among one another, a fall in interest rates in one nation relative to the others will encourage a capital outflow. This capital outflow can be prevented by imposing prohibitions against the transfer of capital abroad, by levying taxes on foreign investment, or by letting exchange rates adjust to remove the incentive to invest abroad. Statutory restrictions over international capital flows tend progressively to lose their effectiveness. The
typical reaction to this deterioration in the efficacy of the controls is to tighten them by introducing new measures. But the consequences of progressively tightening controls is gradually to intrude upon international commerce and to interfere more and more with capital and trade flows.

Taxes on investment abroad could in theory be varied according to the differential between domestic interest rates and those in other countries. This procedure would maintain an independent monetary policy with a minimal distortion of the incentive to invest. However, a number of complicating difficulties arise. First, the appropriate foreign interest rate and country to be used as the basis for calculating the differential is no small problem. Second, taxes are likely to become institutionalized and be varied less frequently and by smaller amounts than would be ideal.

Nevertheless, the major responsibilities assigned to governments today for the maintenance of price stability and full employment mean that monetary as well as fiscal policy must be available to help achieve these goals. Hence, the formulators of monetary policy must enjoy a degree of independence from international repercussions. The preferred way to insure this independence is to let exchange rates float.

Second, floating helps contain inflation.

United States payments deficits during the past decade that were financed through the accumulation of dollar liabilities to foreign central banks tended to increase the money supplies of surplus countries. Especially when the money supply increase was rapid and reflected a surplus amounting to billions of dollars, the consequence was usually a burst of spending. If imposed upon an economy already operating at or near capacity, such a spending surge is inflationary. Floating exchange rates, by preventing the emergence of payments surpluses and deficits, avoid these inflation generating bulges in the money supplies of other countries.

In addition, by permitting prompt adjustments in exchange rates according to the outlook for inflation in various nations, a floating rate regime can help contain within a country internally generated demand. If the value of a nation’s currency depreciates in reaction to prospective excess demand, the level of exports will tend to be maintained and the growth of imports will be discouraged. In this fashion, the transfer of unsatisfied demand beyond the country’s borders will be discouraged.

Third, because compared to other countries a smaller portion of the U.S. GNP is traded internationally, floating rates are especially useful for the United States.

Because the imports and exports of the United States together are only equivalent to approximately 9 percent of this Nation’s gross national product, as opposed to approximately 40 percent in some other large industrial countries, the United States cannot rely upon general monetary and fiscal policies to alter its international payments position. The expansion or contraction in GNP required to bring about a given change in the trade balance is simply too large to make the use of these policies reasonable. Therefore, the United States should depend upon frequent exchange rate adjustments to maintain external
payments equilibrium. Floating is the preferred way of insuring that these adjustments occur promptly and by sufficient amounts.

Fourth, since March 1973 exchange markets have demonstrated their resilience and ability to maintain appropriate rates. The dollar has been floating in exchange markets for a year. During that period, the United States has suffered repeated bouts of economic uncertainty. Exports of soybeans and substitute high protein feeds were embargoed, the pace of domestic inflation has soared, dropped back, and then accelerated again, and prices of petroleum imports have tripled. Massive shifts in international economic prospects have occurred almost overnight. The ability of exchange markets operating under a fluctuating rate regime to adjust to these changes has been impressive. If the same events had occurred during a period when officials had been attempting to maintain fixed parities, exchange markets probably would have been closed periodically while the authorities met to calculate and negotiate a new structure of rates.

As international traders, investors, and exchange dealers acquire more experience with a fluctuating rate regime, the amplitude of fluctuations will tend to diminish. In any event, the costs of market closings, of the inability to conclude contracts at any price, and of the inflationary effects of massive capital transfers would most likely have been larger than the costs of fluctuations in exchange rates have been.

Fifth, floating exchange rates have not demonstrably impeded the expansion of trade and investment. During the first three quarters of 1973, global exports were one-third greater than in the same period of 1972. Nor do fluctuating rates appear to have discouraged either foreign investment in the United States or investment abroad by Americans. Also during the first nine months of 1973, U.S. direct investment abroad increased by 21 percent over the same period a year earlier. Foreign direct investment in the United States totaled $1.5 billion from January through September 1973, as compared with only $160 million in all of 1972.

Sixth, floating exchange rates present no additional incentive for competitive rate changes. The political temptation to export unemployment or improve one’s own trade balance at the expense of other countries exists regardless of whether the exchange rate regime is one of fixed or floating rates. In the last decade, undervaluation of the German mark and Japanese yen substantially distorted trade patterns. These distortions probably persisted longer under the system of fixed exchange rates then being observed than they would have under a floating rate regime. To date there is little evidence that either intervention by central banks or other economic policies pursued by the major industrial countries under floating rates has led to the persistent overvaluation or undervaluation of any currency.

The First Outline of Reform published by the Chairman of the Committee of Twenty (the Committee appointed by the IMF to draft a reform of the international monetary system) states that “Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance, and review.” Surveillance and review will be necessary whatever exchange rate arrangements are adopted under
a reformed system. But each member should have the unfettered right to opt for floating if it so desires and to allow market forces to determine from day to day the external value of its currency. Each member should be free to choose the type of exchange rate regime it considers appropriate for the characteristics of its national economy.

The history of repeated exchange crises in recent years demonstrates that central bankers and Treasury ministers are poor judges of what a country’s exchange rate should be in even the immediate future. Moreover, circumstances can change dramatically within short time periods, sometimes from month-to-month. Private participants in exchange markets have a demonstrably superior record of appraising economic trends and are able to adjust more quickly and easily than officials to changes in circumstances. Commercial traders and investors have also shown that they are able to prosper under floating rates. Therefore, the dollar, especially, as the chief trading and reserve currency, should remain free from the effects of persistent intervention that would influence its exchange value in either direction.

The desires of individual countries to maximize exports in order to pay for petroleum imports has increased the risk of competitive exchange rate changes. The Committee of Twenty should promptly offer for adoption by the end of July guidelines determining what types of central bank exchange market intervention are permissible and what types are not.

The tripling and more of petroleum prices that occurred in 1973 has aroused widespread apprehension about how to pay for these imports. The value of the French franc and the Japanese yen, and to a lesser extent the British pound, has already deteriorated as a reflection of these fears. If this series of exchange rate depreciations continued until it included all the currencies of other industrial nations, most of these countries would end up in more or less the same competitive positions vis-à-vis one another that they held initially. But their currencies would be worth less in terms of dollars and in terms of the currencies of oil producing states.

The United States is likely to be the recipient, either directly or indirectly, of many of the investments that oil producing nations will make from the portion of their increased revenues that is not spent on imports. Therefore, some appreciation in the value of the dollar relative to the currencies of other industrial countries should not arouse undue concern, so long as these exchange rate changes reflect the estimation of the various private interests active in exchange markets about the relative worth of different currencies. However, if exchange rate depreciation or devaluation came about as the consequence of either intervention by central banks or other economic policies purposely designed to have these consequences—rather than from the interaction of diverse private judgments—then these developments should arouse the concern of American officials.

In the hearings conducted to date by this Committee and its subcommittees, only one permanent criterion for central bank intervention in exchange markets has been proposed that seems valid. Specifically, in the event that exchange markets are in danger of becoming
disorderly (i.e., some currencies are being offered in large amounts but there are very few takers at any price, while other currencies are generally desired but unavailable), central banks should step in and perform a function similar to the “lender of last resort” responsibility they fulfill in domestic financial markets when a crisis threatens. Perhaps the Committee of Twenty will be able to specify other conditions which will legitimately require central bank exchange market intervention whenever such situations arise. But in view of the substantial amount of intervention that is occurring under the managed float that has evolved, and considering the strains to which this regime may be subjected as a result of trade deficits with oil producers, the Committee of Twenty should promptly formulate and introduce regulations specifying what types of exchange market intervention and other economic policies are permissible and what types are prohibited.

**The official price of gold ought to be abolished in preference to a uniform worldwide increase in the official value of this metal.**

The steady increase in the free market price of gold has given rise to rumors that the official price of this metal will be increased in the not-too-distant future. A recent announcement by the members of the European Economic Community that they were undertaking a study of various methods for raising the official gold price added substance to the rumors.

The chief problem with present arrangements is the immobilization of officially held gold reserves as a medium for settling accounts among central banks. Since last November, monetary authorities have been permitted to sell gold in the private market if they so desired. However, they are still prohibited from transferring gold among one another at more than the official price. Given the possibility that gold may be worth substantially more in official settlements within the foreseeable future, central banks have not been willing to use gold to satisfy debts to other monetary authorities.

The remedy to this unfortunate situation, however, does not lie in a uniform increase in the official value of gold. This action would have the following undesirable consequences:

- First, it would tend to reinstitute gold as the chief reserve asset, and accordingly displace special drawing rights (SDR’s) from their growing and potentially primary reserve asset role in the future. An increase in the official value of gold to approximately the market level would more than quadruple the reserve asset value of official gold stocks and obviate any need for the creation of additional SDR’s for years to come. In fact, existing SDR’s might even be withdrawn from circulation.

- Second, an increase in the official value of gold would cause private hoarders to sell substantial portions of their gold stocks to monetary authorities. These transfers could create huge increases in the money supplies of many different nations and would greatly intensify the inflationary pressures that economic policy-makers are now attempting to combat, with limited success.
Third, unless the official value of gold were increased to substantially more than its current market price, monetary authorities might subsequently fear to take any action that could introduce a major new element of private demand into the gold market. Consequently, the right of American citizens to invest in gold at their own discretion could be further postponed.

Fourth, we have seen from our experience under the two-tier system—when the private market price of gold threatened to fall below the then $35 per ounce official value—that a new much higher official price for gold would effectively become a floor. Therefore, in the event, however improbable it may seem today, that market forces once again began to depress the price of gold, monetary authorities would again be obliged to take action preventing the free market price from slipping below the official level. Monetary authorities would then effectively be placed in the role of subsidizing the operation of mines wherever gold is produced—including South Africa and the Soviet Union.

Fifth, an increase in the official value of gold would again put the monetary system on the same old commodity standard rollercoaster that has intermittently plagued cooperative efforts to regulate money internationally. In another decade or two, we would again experience rising pressures for another change in the official price.

For these reasons, a uniform increase in the official price of gold is no solution to our present dilemma. A superior alternative would be abolition of the official price of gold. This move would entail severing the link between SDRs and gold, and redefining special drawing rights in terms of a bundle of currencies.

Abolishing the official price of gold would have the following advantages:

First, it would cause a further reduction in the role of gold as a reserve asset. An important step was taken in this direction when in August 1971, the United States suspended convertibility between gold and dollars. Abolition would continue this progression.

Second, it would not preclude individual central banks from holding gold at their own discretion and using the metal as a reserve medium if they choose to do so. Monetary authorities could continue to use gold as a medium for settling debts at bilaterally negotiated prices or at the free market price. Thus, the reserve asset role of gold would not be eliminated. It would just no longer be guaranteed.

Third, abolition would resolve the issue of further periodic increases in the official value of gold in the IMF system.

A suggestion to abolish the official value of gold does raise a number of difficult technical issues. For example, what should be done with the gold currently deposited with the IMF? If the gold tranche positions of IMF members are to be converted into SDRs, at what rate? Perhaps the conversion should be carried out at the market price of gold and at the exchange rates obtaining at some time in the recent past.

In any case, these technical difficulties are no reason to forgo the benefits to be derived from abolishing the official price of gold, rather than increasing it.
Trade Policy

Industrial nations should agree to abolish gradually all statutory tariff barriers over the next ten to twenty years.

As a result of the mutual tariff reductions agreed upon during the Kennedy Round of trade negotiations, tariffs levied by all major industrial countries average 10 percent or less. Japan still has the highest average level of tariffs, but the United States exhibits greater variation in its tariff structure than either Japan or Western European countries. As a consequence, the United States has more very high tariffs than any other industrial nation. Even in the United States, however, few import duties actually make the difference between the survival of a domestic industry and its demise. Most tariffs have been reduced to such a low level that they are more of a nuisance in conducting international trade than a serious inhibition. Reducing remaining tariff barriers by an average of 1 percentage point or less each year would not expose any domestic industry to a severe adjustment shock. Therefore, to promote continued expansion of international trade, the Congress should delegate to the President the statutory authority to negotiate a total phasing out of all tariff barriers over the next ten to twenty years.

An authority should be established, most likely within the GATT, to negotiate the progressive elimination of non-tariff barriers to trade.

Because they occur in so many different forms and because measurement of their impact on trade is extremely difficult, non-tariff barriers are not susceptible to the same type of negotiating techniques for achieving their removal as are tariff barriers. These obstacles to trade include, for example, quotas, variable import levies, some internal taxes, packaging requirements, and health and safety regulations. The President can be given, as suggested above, specific authority to negotiate the mutual reduction of tariffs by a stated amount. However, one cannot authorize the President similarly to reduce non-tariff barriers by a given amount, because there is no easy way to state that amount. Non-tariff barriers vary too greatly from country-to-country for this type of approach to be feasible.

It is, therefore, impossible for the Congress to specify in advance which U.S. non-tariff barriers should be removed in exchange for a particular set of foreign restrictions. At the same time, the Congress is unwilling to give the Executive carte blanche to negotiate the removal of non-tariff impediments as the President sees fit. An appropriate role for the Congress under these circumstances is to give the Executive a go-ahead to negotiate with other countries on an ad referendum basis groups of non-tariff barriers that can be fairly traded off against one another. As legislation now under consideration specifies, the Congress must then have an opportunity to reject the proposed deal.

Given the likely complexity of negotiations for the progressive removal of non-tariff impediments to trade and considering the prospective need for a series of separate negotiations on different sets of barriers and among different groups of countries, a permanent forum
should be established to conduct these discussions. The most appro-
priate institution in which to house this forum is probably the General
Agreement on Tariffs and Trade. This organization has been instru-
mental in successfully negotiating the mutual reduction of tariff bar-
rriers and its responsibilities can appropriately be expanded to include
efforts to eliminate nontariff impediments to trade.

The United States should initiate negotiations to reach
multilateral understandings regarding the availability
of basic commodities and raw materials. We should seek
assured availability of essential materials imports. In
exchange the United States should offer potential re-
cipients of food aid and our regular export customers
assured access—given prior satisfaction of minimum
domestic needs—to supplies of U.S. agricultural products
and raw materials.

Since the heyday of the mercantilists, efforts to free trade from
restrictions have meant the removal of barriers to imports. Events in
1973, however, added a new dimension to appeals for free trade. In-
stead of access to foreign markets, the emphasis shifted to the avail-
ability of supplies of agricultural commodities and raw materials. An
unprecedented commitment to ship wheat to the Soviet Union—in
addition to the regular purchasers of U.S. grain exports—depleted
domestic stocks and created apprehension about our ability to sup-
ply future needs. Wheat prices soared to new highs. A similar short-
age of soybeans for animal feed and other purposes led to an even
more severe shortage. The Administration's reaction was at first to
embargo soybean exports. When the embargo led to a severe adverse
reaction from the Japanese and our regular European customers, the
embargo was lifted and existing unfilled contracts were all cut back
by the same proportion. Later in the year, a group of Arab oil pro-
ducing countries imposed an embargo on petroleum shipments to the
United States. The objective of the embargo, political rather than
economic, was to force a shift in U.S. policies regarding unsettled
territorial disputes in the Middle East. Given the example of the oil
embargo, fears have been kindled that exporters of other raw mate-
rials critical to the U.S. economy, especially metals, may attempt to
employ a similar tool to achieve political or economic gains.

This series of events poses two questions for U.S. international
economic policy. First, how can we be assured in the future that sup-
plies of imported raw materials critical to the health of the U.S.
economy and not produced in sufficient amounts here will be available
continuously and in quantities sufficient to maintain desired levels of
production? Second, how can occasional sharp increases in the domestic
prices of commodities exported from the United States be avoided
without periodically abandoning overseas markets that are essential
if major sectors of the American economy are to earn satisfactory
incomes? Pursuing domestic price stability at all costs and periodi-
cally ignoring regular foreign customers risks the loss of foreign
markets for U.S. agricultural products and raw materials.
If the United States is to remain competitive in foreign markets, we must be willing to tolerate some price increase whenever global supplies of our chief exports of agricultural products and industrial raw materials are exceptionally scarce. Moreover, the United States cannot expect other countries to assure their supplies of oil, metal ores, or other essential materials to it if we capriciously restrict our exports of grains or any other product. The solution to this apparent dilemma is the negotiation among all major exporters of foods or basic industrial inputs commitments to assure the continuity of supply.

A variety of alternative commitments are conceivable. For example, the assurances could be in terms of a guarantee, under reasonably normal conditions, of a minimum proportion of a country's production of a given product. On the other hand, nations might prefer to bind themselves to restrict exports only under a limited set of conditions and to exclude other reasons as acceptable grounds for curtailing exports. The latter approach would work toward a set of rules for access to foreign supplies similar to the GATT standards regarding access to foreign markets. Pursuing both of these approaches, and even other negotiating strategies, may be desirable.

Since, as in trade negotiations, no neat bilateral matching of material needs is possible, a multilateral negotiation is appropriate. The vital interest of developing countries in any such negotiation must be understood and explicitly recognized. The resource-rich countries participating in the negotiations should acknowledge their mutual responsibility to supply essential commodities to poor countries at reasonable prices and occasionally on concessional terms or as grants. Recognition of this common commitment to the poor of the world could help create the proper environment for productive multilateral negotiations among resource-rich countries.

The United States can either independently or in cooperation with other countries undertake stockpiling programs that will moderate the price effects of these commitments upon American consumers. For example, we can store amounts of grains and oil seeds sufficient to curtail the degree of price increases that would otherwise occur in the event of major crop failures. Under such circumstances, some increase in domestic prices would occur, but the rise would be less than if no stockpiling had occurred.

The United States should enter into major new export commitments only when an abundant supply of the commodity in question is assured and the export contract can be met without a substantial increase in the domestic price. Hopefully the compilation of more accurate and comprehensive data will permit the Secretary of Agriculture to detect and prevent excessive new export commitments without the introduction of comprehensive licensing.

Our primary obligations should be to assure adequate quantities of all major commodities to American citizens and to our regular export customers at reasonable prices and to fulfill our food aid responsibilities. If any stockpiling program is instituted in part to assure our ability to meet commitments to traditional export markets, the foreign purchasers of U.S. agricultural products, lumber, and other materials should participate and share in the cost of these stockpiling programs.
A simple way to effect sharing would be to accumulate a foreign-owned portion of the stockpiles overseas.

**Development Assistance**

The oil producing countries should be encouraged to enlarge substantially their participation in the multilateral development banks. In exchange, these countries would obtain increased quotas and influence in formulating the policies of the lending institutions.

As a result of the tripling and more of oil prices during 1973, producing countries will enjoy extraordinary gains in their revenues. If the oil producers do nothing to increase their financial assistance to other developing countries that are not endowed with petroleum resources, and if the industrial nations continue their previous level of aid and development assistance contributions, the future impact of aid financing could be severely impaired by higher oil prices. Increased oil prices will result in an estimated additional annual cost of $10 billion to the developing world, while all public aid to these countries amounted to about $8.5 billion in 1973. Therefore, if development is to continue at the previous—admittedly slow—rates, oil producers must increase their grant and concessional aid contributions by an amount sufficient to offset the impact of price increases on the payments balances of other developing countries.

The increase in financial assistance from oil producers can take the form of additional subscriptions of paid-in capital to the development banks, participation in the International Development Association and the concessional lending facilities of regional banks, or the financing of a third window at development banks that would allocate funds on terms midway between hard loans and virtual grants. A combination of increases in all three types of assistance is probably desirable. In keeping with their expanded financial commitment to the multilateral development banks, the oil producers should be given expanded quotas and a new policymaking voice in determining the goals and lending criteria of these institutions.¹

Further distributions of special drawing rights should be made exclusively to the International Development Association (IDA). IDA could lend against these assets on concessional terms to poor countries.

Under a floating exchange rate regime, which will presumably be the choice of most industrial countries in the foreseeable future, the need for allocations of additional SDRs to wealthy nations will be minimal. These countries already are relatively well supplied with reserves and their need to intervene in exchange markets to affect rates ought to be and is minimal. But to protect their less diversified economies (in some cases, one crop or one commodity) from the vagaries

¹Senators Sparkman, Humphrey, Javits, Percy, and Pearson state: "It is equally important that the developed countries continue the existing level of commitments to bilateral and multilateral aid programs. The oil producing countries are unlikely to assume greater development responsibilities without encouragement from and a proper example set by the United States, Europe, and Japan."
of exchange rate fluctuations, many developing countries will appropri-
ately choose to peg their own currencies to that of their major indus-
trial trading partner. Consequently, while the demand of most wealthy
ations for reserves will decrease, that of developing countries will
remain about the same or even grow.

Under these conditions equity suggests that whatever additional dis-
tribution of SDR's is dictated by the need of all IMF members for
reserves, these assets be distributed to IDA to increase its capacity to
lend to the developing countries. IDA would obtain hard currencies
for lending by swapping SDR's for the monies of various IMF mem-
bers. Most of the funds lent by IDA would be spent on imports. The
remainder would be kept by poor countries as additions to their re-
serve stocks for stabilizing the external value of their own currencies.
So long as new supplies of SDR's are limited by the need of all IMF
members in combination for additional reserves, distribution of SDR's
under this mechanism would not impair the future acceptability of
special drawing rights as reserve assets and would provide additional
development financing.
A REAPPRAISAL OF U.S. ENERGY POLICY

A Summary of Recommendations

1. Oil prices should be controlled and maintained at levels which would avoid excessive profits and at the same time provide adequate investment incentives. Present prices clearly exceed these levels and, therefore, should be rolled back, but they must be flexible to deal with changing economic conditions.

2. To provide for equity in the distribution of gasoline, Congress should forthwith provide authority for a transferable coupon rationing system or a rebatable tax. If the present supply situation for gasoline continues, the Administration should impose such a system in lieu of further producer price increases for gasoline. Coupon prices should be published to protect consumers against gouging.

3. The Federal Energy Office should monitor the effects of fuel cutbacks in various sectors of the economy and make adjustments in the mandatory oil allocation program as circumstances change. It should also develop more detailed contingency plans for allocating fuels among industries to minimize employment losses in the event that short supplies worsen.

   The FEO should actively seek consumer cooperation in monitoring the allocation and price control programs to eliminate violations of gasoline and diesel fuel price ceilings, widely reported in recent weeks, and to obtain compliance with requested space heating reductions in commercial buildings.

4. The Government should immediately institute a program of public service employment, and training and relocation benefits to offset unemployment in general which is aggravated by the fuel shortages, especially in the most severely affected regions.

5. Carpooling should be promoted energetically by public and private employers. Congress should approve funding for experiments and demonstration projects. The Civil Aeronautics Board should judiciously permit airline flight reductions on densely served routes, while preventing serious degradation of service to smaller communities.

Chairman Patman, Senator Sparkman, Representative Bolling, Senator Fulbright, Senator Bentsen, and Senator Pearson each state: "Because the pressure of other duties prevent us from participating fully in the Subcommittee hearings and deliberations pertaining to this Report, we do not think it would be appropriate to take a position on the recommendations contained herein."

Senator Ribicoff states: "The Report by the Subcommittees is a most commendable effort outlining many of the problems and suggested solutions to the current energy shortages. While I agree with its general thrust, given the broad scope and detailed nature of the Report, I cannot concur with all of its recommendations. In particular, I feel that the international portions of the Report are inadequate in protecting the United States against economic blackmail."
6. Congress should act on reforms of transportation regulations to enhance competition and efficiency. Relaxed trucking regulations should eliminate restrictions on cargoes that may be carried, particularly on backhauls, and as a minimum, put an end to unnecessary roundabout routing.

7. Congress should authorize funding for mass transit systems in fiscal 1975 at the maximum rate of service improvement within the capacity of the equipment suppliers and the construction industry. Congress should forthwith release additional monies from the Highway Trust Fund for this purpose for fiscal 1975 rather than delaying until 1976, as existing statutes specify.

To attract potential riders from their cars, consideration must immediately be given to the quality of service, in addition to its quantity and price.

8. Congress should provide the authority to phase in minimum standards for thermal efficiency in new buildings as a prerequisite for approval under any Federal subsidy or mortgage insurance program. States and localities should be encouraged to incorporate similar standards into building codes.

9. Utility rate structures that encourage energy use through quantity discounts should be phased out and replaced with rate schedules that promote conservation and fully reflect all social costs of providing service. Peak-load prices should be maintained.

10. Federal lands should be leased to oil companies primarily under a system of royalty bidding rather than the present system of one-time bonus bids.

11. To limit the excess profits which would otherwise be realized by producers at current and prospective prices of crude oil, the special tax benefits presently granted the oil industry should be removed or sharply reduced. In particular, (a) percentage depletion and current expensing of intangible drilling expenses should be disallowed on both foreign and domestic operations. (b) Incentives to domestic exploration can be provided, if necessary, through a direct drilling subsidy for exploratory wells. (c) All payments to foreign governments for the privilege of mineral extraction should be classified as royalties rather than as taxes. (d) The crediting of taxes paid one foreign government against U.S. taxes owed on income earned in another foreign country should be disallowed.

12. In order to obtain adequate information:
   A. An energy information library should be established within an appropriate Federal agency.
   B. The accuracy of the wholesale price statistics for petroleum products must be improved. Unless corporations producing petroleum products provide full and immediate cooperation with the requests of the Bureau of Labor Statistics, Congress should provide BLS with authority to require submission of corporate data with appropriate safeguards to prevent competitive injury. The BLS should begin immediate publication of the improved petroleum product price indices which it has already developed, while at the same time making every effort to improve the quality of this information further.
C. Corporations relating to energy research, exploration and marketing should be required to submit to the Federal Government periodic confidential reports by product line on their sales, costs, and profits.

D. Additional and more accurate data should be collected on inventories, shipments (including imports and exports), and sales of mineral fuels at all levels of production and distribution.

E. Energy-related data supplied to the Government by private corporations should be subject to government audit.

13. The capability for adequately gathering and analyzing information about the location, extent, and value of energy resources on Federal lands and on the Outer Continental Shelf should be established within an appropriate government agency. New lessees prospecting or exploring for energy resources in the public domain should be required to supply all information obtained to an appropriate government agency. The Government should be able to purchase other necessary data from private sources when it is considered economical to do so.

14. Although the present crisis situation may require extraordinary industry collaboration to assure efficient allocation of available petroleum supplies, no blanket antitrust exemption should be granted to the oil companies. Nor should company officials brought into the Government during the present crisis be exempt from conflict of interest provisions.

15. Enforcement of antitrust laws must be stiffened. Furthermore:

A. Congress should enact legislation to reduce vertical integration of the oil industry; at a minimum, it should require the divestiture of pipeline facilities by the major producers.

B. Congress should act to limit ownership of multiple energy resources (i.e., oil companies owning coal, oil shale, and geothermal power resources) to insure efficient resource development and the maintenance of effective competition among alternative energy supplies.

C. A government corporation should be created to develop and produce energy resources in the public domain. Among other purposes, it could provide a yardstick with which to measure the costs of private oil companies. This corporation should supplement and not replace the present system of leasing mineral right to private persons.

16. To discourage further economic warfare, the United States should ask the Secretary General of the United Nations to serve notice on the Arab oil producers that their actions violate the U.N. Resolution 2625 (1970) limiting the use of economic and political pressure. They should be directed by bring their conduct into line with the above resolution.

17. While the United States should move decisively to develop its own domestic energy resources, it should simultaneously join other consuming nations in promoting research and the technological development of all forms of energy. The United States should exchange information on limiting energy demand and wherever possible, energy-saving technology.
The United States should remove its objections to lending by the international development banks to projects which will promote the exploration and development of energy resources.

18. The United States should continue to pursue vigorously a common consumer position to minimize the scramble for oil supplies and competitive price pressures. The United States should prepare in case of emergency to allocate resources from both domestic production and imports to other nations in exchange for their participation in a consumer bloc. The developing countries as well as the industrialized countries should be included in the effort to reach a common position.

19. In addition to attempting to achieve a negotiated settlement of the Middle East conflict, the United States in cooperation with other consuming nations should develop suitable incentives that will induce the Arab oil producers to continue to produce oil needed by the world economy. We should create productive uses for surplus Arab funds in the following ways: (a) Encourage investment by producer countries in the United States and in other industrial countries, including oil refining and distribution facilities as suitable industries; (b) encourage oil producers to purchase World Bank and regional development bank bonds; (c) assist development in producer countries through reimbursable technical assistance from the World Bank; and (d) liberalize trade policies affecting the importation of energy-intensive manufacturers (such as petrochemical products, other refined products, aluminum, etc.) into the rich country markets.

20. The United States should encourage the oil producing nations to assume an expanded role in the international development banks—particularly the concessional funds—commensurate with their new wealth.
Report of the
Joint Economic Committee
on the
February 1974
Economic Report of the President
The U.S. economy is in a seriously troubled state; unemployment is rising; the virulent price inflation of the past year is continuing; interest rates remain at very high levels; and the energy shortage is disrupting spending patterns.

Prospects for improvement, at least in the short run, are poor. The Administration's own forecast indicates a year of rising unemployment and very little growth. Even that is overly optimistic, in our view.

The President, in his State of the Union message, proclaimed that there would be no recession. But the report of his own advisers offers convincing evidence that semantics will not cover up the grim economic facts.

The report of the Council of Economic Advisers forecasts the following:

- **Prices.**—A 7-percent increase for the year with a sharper rise in the first half, hopefully to be followed by a more moderate increase in the second half.
- **Unemployment.**—Already up by 500,000, it is estimated to average above 51/2 percent for the year.
- **Real Growth.**—Possibly a decline in the first part of the year, to be followed by moderate growth in the second half with the result that the overall annual rate will be 1 percent.
- **Agriculture.**—Continuation of the unprecedented price increases of last year but at a moderated rate.
- **Energy.**—No serious disruption of our capacity to produce but the energy shortage will cause distortions and diminution of consumer demands.
- **World Economy.**—High probability of a recession. Western Europe, Japan, and the developing countries will be affected more drastically than we by sharply higher oil prices. This in turn poses the danger of a cumulative recession.

In the face of these unacceptable prospects, the Administration sets forth a pitifully thin program. There is no proposal for offsetting the rising unemployment that is already beginning to plague the nation, other than that the unemployment compensation system be strengthened.

In the case of energy, it is clear that the Administration intends to place heavy reliance on rising prices to ration supplies. The mounting oil company profits ensuing from this policy would be curtailed by a proposed excise tax on crude oil, which would be totally inadequate to the job of reducing windfall profits. No provision is made to offset the added burden imposed on low and moderate income consumers already suffering reductions in real purchasing power.
With serious inflationary prospects, the Administration is now proposing that we fall back on market forces, completely ignoring the fact that in 1974 the price-wage situation will be exacerbated by a number of forces that are not amenable to market solution in the short run.

The budget request calls for an expenditure level of $304 billion with receipts at $295 billion, resulting in a deficit of approximately $9 billion. If the Nation were at full employment, however, this budget would be even more restrictive than last year's and would place a further damper on the economy.

The budget itself, in spite of the rise in expenditure levels, offers very little in the way of new initiatives. Most of the increase is for military expenditures and rising social security and welfare costs. None of the new programs mentioned by the Administration, such as welfare reform and health insurance are funded.

This Committee is deeply disturbed by the fact that the Administration continues to flounder from crisis to crisis. Repeatedly the Nation has suffered the consequences of insufficient foresight, faulty diagnosis, and inadequate remedies.

The Administration's efforts on the wage price front now amount to a debacle. For months, it ignored the powers provided by the Congress in 1970, apparently because of doctrinal opposition to market intervention by the Government. Then in August of 1971, the President switched abruptly and put into effect a hastily formulated freeze. Three months later, this was followed by the so-called Phase II control program that, in spite of its hasty preparation and poor enforcement, achieved some modest success. This phase lasted only about a year, however; the Administration shifted in January of 1973 to a disastrous Phase III program. When serious inflation continued, the President resorted to another panic freeze. Then, after 60 days, it was replaced with Phase IV. The latest position, announced on February 6, apparently is that controls should be abandoned (with a few limited exceptions). No economic system can function well under this kind of vacillation.

In the case of agriculture, the Administration failed to react to sharp changes in the demand and supply situation caused by bad weather, rising consumption in the affluent nations abroad, increased population in developing countries, and devaluation of the dollar. It further aggravated the situation by entering into the wheat deal with the Soviet Union. As a result, the Nation was caught short of basic commodities during the year and inflation followed. The Administration should have lifted acreage limitations restricting output a full year earlier than they eventually did.
A parallel situation affected energy. The Administration failed to implement the recommendations of its own 1969 Oil Import Task Force and showed little resolve to act until the crisis was upon us. Lack of adequate information on energy supplies and related data impose a serious handicap on the capacity of the Federal Government to cope with the shortages. Three subcommittees of the Joint Economic Committee earlier this month issued a comprehensive report including recommendations on how to deal with all major aspects of the energy problem. Since the combined membership of these three subcommittees includes virtually all of our members, we are not presenting a separate energy chapter in this report. Instead, the recommendations from our energy report are reproduced following the above joint statement of bipartisan agreement.

This report analyzes the present state of the economy, evaluates the Administration's economic program, and provides our own best judgement as to what can be done to restore full employment and price stability. At the outset, one requirement has become clear. The Congress must assume leadership for the development of an effective policy to achieve this end. The Administration has demonstrated repeatedly its inability to provide economic leadership for this country. The cost to the nation of the kind of continued irresolution manifested by the Administration is too high.

The specific recommendations of the Committee are set forth in the following pages: In general, we propose immediate help for consumers and wage earners through a reduction in taxes and a public employment program. Both of these have the advantage of producing relatively speedy results. For the longer term health of the economy, we recommend a number of tax reforms and improvements in the Federal spending mix.

It is instructive to attempt to measure the extent of past failure to achieve the full potential of the economy. The following chart provides measures of past policy failures in terms of lost production, higher unemployment, and wasted opportunity. The chart also shows the expected shortfall in economic performance during the coming year. According to the CEA's own forecast, the gap between actual and potential GNP is expected to increase from 1.7 percent in 1973 to 4.8 percent in 1974. The CEA has recently revised its estimate of the growth potential of the American economy based on new estimates of productivity, weekly hours worked and labor force growth. The Potential I line reflects the original and Potential II the revised estimate.
GROSS NATIONAL PRODUCT—ACTUAL AND POTENTIAL ALTERNATIVES
IN BILLIONS OF 1958 DOLLARS
QUARTERLY; FISCAL YEARS 1969-1973

$Billions

880
860
840
820
800
780
760
740
720


YEAR AND QUARTER
Chapter II. ECONOMIC OUTLOOK

At the time the Council of Economic Advisers released its Annual Report, their forecast for 1974 seemed somewhat optimistic, but not outside the range of reasonable probability. However, economic developments in the two months since that forecast was presented strongly suggest that the Council has overstated the rate of real growth to be expected in 1974 and understated the probable rate of inflation. Sharply rising unemployment, declining personal income, reduced auto sales, a lower level of housing starts, and falling industrial production during the past few months leave little doubt that the economy has already entered its sixth recession since the end of World War II.¹

Some strength will come from the expected relatively high level of business investment, the steady growth of State and local government spending, and the proposed higher level of Federal spending. This will not serve, however, to fully offset the weakness in the demand for housing, automobiles, and consumer goods in general. Nor can export demand be expected to provide the stimulus which it did in 1973.

Personal Consumption.—To date, the most dramatic impact of the petroleum shortage has been its effect on consumer demand, rather than on the economy's ability to produce. Reduced and uncertain availability of gasoline has affected the demand for automobiles and for travel-related services. Some part of the money not spent on these items will be used to purchase other goods and services. However, higher prices for food and fuel will reduce the share of consumer income available for non-food, non-fuel purchases. These higher prices have contributed to a significant decline in real incomes in the last few months. The current dollar value of consumer purchases may well grow 8 percent, as the Council has predicted, or even more, but this growth will represent a struggle to keep up with higher prices. Real consumption per capita in 1974 is likely to be below its 1973 level.

Housing.—Rising construction costs and high interest rates have priced many families out of the market for new houses. Sheer unavailability of credit prevented even some families with relatively high incomes from purchasing houses in 1973. Housing starts in the first seven months of 1973 averaged 2.3 million (seasonally adjusted annual rate), but then fell sharply, averaging below 1.6 million during the most recent 4 months. This drop virtually insures that, despite rising costs, the current dollar volume of residential construction spending will fall in the first half of this year.

Assuming that credit becomes available, some recovery is to be expected in the second half. Mortgage interest rates are likely to remain quite high, however, due both to inflationary expectations and to the expected strong demand for longer term business credit. High

¹Senator Proxmire states: "We may have a recession or we may be in one, but the objective evidence does not at this time make it a certainty."
mortgage rates, together with the low level of federally subsidized housing starts, and the large inventory of unsold houses will limit the extent of any housing recovery. For the year, housing starts are likely to average somewhat less than the 1.7 million predicted by the Council.

**Business Investment.**—The most recent Commerce Department survey indicates a planned 13 percent increase in business spending for plant and equipment in 1974. Even though some investment plans are likely to be revised downward in light of the emerging recession, investment in fuel production facilities and in more energy efficient production processes, and expansion in basic industries with capacity shortages should keep total business investment from falling too far below these expectations. The estimates of the increase in business fixed investment during 1974 presented to the Committee at its Annual Hearings ranged from 8½ to slightly over 12 percent.

**Inventories.**—Business inventories increased sharply in the fourth quarter of last year due largely to the accumulation of automobiles in dealers' stocks. Automobile production has now been cut back in line with reduced sales expectations. If the recession follows a typical pattern, inventories of other goods may be expected to rise early in the year and then grow very little in the second half as production is curtailed. The petroleum shortage, however, will disrupt normal inventory patterns in many industries, and any prediction of inventory accumulation in 1974 can be only a guess. Estimates of inventory accumulation presented by witnesses at the Committee's Annual Hearings ranged from $4 to $9 billion.

**Net Exports.**—Demand for U.S. exports was a strong source of growth last year. The net export position reversed from minus $4.6 billion in 1972 to plus $5.8 billion in 1973. Export demand cannot continue to grow this way in the face of the economic slowdown abroad. Import growth would also be expected to slacken were it not for the greatly increased price of imported oil. Taking these higher oil prices into account, the trade balance must be expected to deteriorate. Although private witnesses at our Annual Hearings forecast net exports of from $3 to $7 billion, we do not feel the Council is unduly pessimistic in predicting a net export balance of zero.

**The Government Sector.**—State and local government purchases can be expected to increase by about 12 or 13 percent, reaching the range of $190-$193 billion in 1974.

Federal spending is unlikely to achieve the sharp increase implied in the budget for the first half of calendar 1974. However, the discrepancy appears to be mostly in transfer payments. Direct Federal purchases of goods and services in 1974 will probably be fairly close to the $118 billion forecast by the Administration.

**To Summarize.**—Rising food prices, the need to pass through higher fuel costs into product prices, and mounting wage pressures in response to last year's price rise suggest an inflation rate of 8 percent or more, even though raw material prices should rise less than last year. Adding up the various sectors and adjusting for this expected inflation, real output in the first half of 1974 will almost surely be
below that of the second half of 1973, pushing the unemployment rate near 6 percent by mid-year. Output can be expected to rise during the second half, but growth may well be at less than the 4 percent rate needed just to keep unemployment from rising further. Given current policies, the higher rates of growth that are required to *reduce* unemployment seem unlikely to be achieved at any time in 1974. Thus, it appears likely that the unemployment rate will remain at or above 6 percent at year end.

The Nation must anticipate a year in which real output growth will be essentially zero, unemployment will rise sharply, and prices will continue to rise at the 1973 rate or even more rapidly.

*Special Contingencies of 1974.*—Assessment of this year’s outlook is, of course, made especially difficult by the uncertainties surrounding international supplies of petroleum. At best, several months will pass before imports are restored to normal levels. Sharply higher oil prices imply a significant transfer of purchasing power from consumers to producers. This will have a restrictive effect, similar to that of a tax increase. The effect will be even more damaging to the import-dependent economies of Europe and Japan than to the United States. Those less developed countries which are dependent on oil imports also face great difficulty in sustaining economic growth. The worldwide spread of recession could cause U.S. economic performance to be even worse than that outlined above.

It is of the utmost importance that measures be taken immediately to counter the recession which is already emerging. In Chapters III, IV, V, and VI of this Report, we outline the fiscal, monetary, labor market, and price-incomes policies which we believe are urgently required in 1974 in order to halt the present recession, contain inflation, and restore the economy to a healthy growth path.
Chapter III. FISCAL POLICY

The Administration's budget can best be described as a tentative and incomplete document. It fails to present a coherent strategy for dealing either with the rise in unemployment, which is already underway, or with the serious inflationary pressures that continue to plague the economy. In fact the Administration's budget for Fiscal 1975, measured on a full employment basis, is more restrictive than the Fiscal 1974 budget. As shown in Table 1, the full employment surplus, on a national income accounts basis, is estimated to grow steadily from $5 billion in the last half of Fiscal 1974 to over $14 billion in the last half of Fiscal 1975.

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half</td>
<td>276.9</td>
<td>268.1</td>
<td>8.8</td>
</tr>
<tr>
<td>2nd half</td>
<td>288.4</td>
<td>293.4</td>
<td>5.0</td>
</tr>
<tr>
<td>1975:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half</td>
<td>313.6</td>
<td>306.6</td>
<td>7.0</td>
</tr>
<tr>
<td>2nd half</td>
<td>329.5</td>
<td>315.3</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source: Council of Economic Advisers.

Given the probable rise in unemployment to 6 percent or more at some point during the year, we do not support a more restrictive fiscal policy, as proposed by the Administration. However, continuing strong inflationary pressures preclude a strong shift in the budget toward more stimulus. Therefore, we favor an outlay and revenue mix in Fiscal 1975 which approximately maintains the Fiscal 1974 full employment surplus. Within these constraints, tax and expenditure changes should be made in the Administration's budget which will mitigate the rise in unemployment, bolster sagging consumer demand, and partially redress the income loss suffered by lower-income families as a result of the recent inflation.

In testifying at our Annual Hearings, the Chairman of the Council of Economic Advisers stated "the President has directed that other measures be prepared to support the economy if it seems clearly to be departing from the desired path." It is most unfortunate that these "other measures" were not spelled out in the Budget and the Economic Report.

The Administration should immediately present its package of stand-by anti-recession measures, so that Congressional consideration of any needed legislative authority can begin at once.

1 Senator Proxmire states: "While I do not favor the Administration's proposals, which I believe are excessively expansionary and inflationary, I support a more restrictive fiscal policy as proposed in my supplementary views."
The Administration has forecast an unemployment rate averaging $5\frac{1}{2}$ percent for 1974, implying rates close to 6 percent at some point during the year. How can the Chairman of the Council of Economic Advisers refer to this as the "desired path" for the economy? Even if the Administration's forecast were still the most likely outlook for 1974, additional policy measures would be desirable in order to limit or prevent this disastrous rise in unemployment. Furthermore, the Administration's forecast now appears too optimistic. Unless additional anti-recession measures are taken quickly, unemployment could exceed 6 percent throughout the second half of this year. Selective fiscal measures are available which can do much to strengthen the economy and limit the rise in unemployment without adding to inflation.

**On the expenditure side, Congress should immediately consider a public employment program and an expansion in the coverage and duration of unemployment benefits. The cost of these programs should be approximately offset by reductions in spending for other current programs, primarily defense.**

The unemployment compensation and public service employment programs which we recommend are described in more detail in the chapter on "Employment and Labor Markets." Their cost would vary with the level of unemployment. At a 6 percent unemployment rate, the two programs together would cost about $6 billion annually. Since both programs are designed to be in effect only when unemployment rates are high, either nationally or locally, the cost would fade to zero as full employment is regained.

**TABLE 2.—FEDERAL EXPENDITURES, BY HALF YEARS, NATIONAL INCOME ACCOUNTS BASIS**

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Level</th>
<th>Change</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half</td>
<td>$248.7</td>
<td>$8.2</td>
<td>3.4</td>
</tr>
<tr>
<td>2nd half</td>
<td>260.5</td>
<td>11.8</td>
<td>4.7</td>
</tr>
<tr>
<td>1974:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half</td>
<td>269.0</td>
<td>8.5</td>
<td>3.3</td>
</tr>
<tr>
<td>2nd half</td>
<td>295.2</td>
<td>26.2</td>
<td>9.7</td>
</tr>
<tr>
<td>1975:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half</td>
<td>360.0</td>
<td>13.8</td>
<td>4.7</td>
</tr>
<tr>
<td>2nd half</td>
<td>318.0</td>
<td>9.0</td>
<td>2.9</td>
</tr>
</tbody>
</table>

1 Estimate by the Council of Economic Advisers. Excludes $2,100,000,000 worth of rupees expected to be transferred to the Indian Government in the 2d half of fiscal 1974, since this accounting transaction has no impact on the U.S. economy.

Source: Department of Commerce; Council of Economic Advisers.

As shown in Table 2, the increase in spending implied in the Administration's budget is already large, especially from the first to the second half of Fiscal 1974. Any further major outlay increase seems impractical. Therefore, an important part of the budget support needed to fight recession must come from the tax side of the budget.

In the last year, low and lower-middle income families have been especially hard hit by inflation. They have seen their real income eroded by sharp price increases in food, fuel and housing, items which constitute a large share of their budgets. Furthermore, these taxpayers
contribute 25 percent of their income in personal income and payroll taxes, approximately the same percent as other, higher income taxpayers. On equity grounds, the tax burden on these families should be reduced.

A tax cut on the order of $10 billion, aimed primarily at lower income taxpayers, would also stimulate aggregate demand. Retail sales, measured in real terms, showed no growth through most of 1973 and declined in the last quarter. Consumer demand is expected to remain weak in 1974. A reduction in taxes for lower-income taxpayers would be translated relatively quickly into higher personal consumption and would brighten the current gloomy outlook for consumer demand in 1974. These tax cuts could be partially offset by the elimination of certain tax preferences, including foreign tax preferences, the oil depletion allowance, intangible drilling expenses, and by a strengthening of the minimum income tax as discussed in Chapter VII.

Congress should enact a tax cut of approximately $10 billion, aimed primarily at lower income taxpayers. This reduction in tax revenues should be partially offset by an elimination of certain tax preferences, including percentage depletion, intangible drilling expenses, foreign tax preferences, and by a strengthening of the minimum income tax. The net effect of the tax and spending changes proposed by the Committee should be to maintain an unchanged full employment surplus from Fiscal 1974 to Fiscal 1975 instead of increasing it as the Administration has proposed.

There are several alternative ways to reduce personal taxes which would contribute to equity and also stimulate consumer demand. The Social Security tax rate could be reduced for an 18-month period to the level in effect during 1972. Although a temporary reduction in this tax would help stimulate the economy, it would do nothing to alter the regressivity of the payroll tax. While the lower rate was in effect, reforms to make the payroll tax progressive, as discussed in Chapter VII, could be considered. A reduction in the tax rate on both employee and employer from the present 5.85 percent to the 5.2 percent in effect in 1972,4 made retroactive to January 1 of this year, would reduce revenues by about $4 billion in Fiscal 1974 and $8 billion in Fiscal 1975. A reduction in the Social Security tax offers the following advantages:

2 Senator Proxmire states: "I would offset a tax cut in full through additional spending cuts."
3 Representative Moorhead states: "I strongly oppose the use of the Social Security system as a short term tool of economic policy. Such a policy would threaten the soundness of a system that millions depend upon and would violate the payroll insurance purpose of the system. Basic reform of the funding of the Social Security system may well be advisable, but it should be treated as a basic reform and should not be used for temporary counter-cyclical purposes. For this reason, I prefer the tax cut option which would allow taxpayers to substitute a $200 tax credit for each $750 personal exemption they are entitled to."
4 Senator Proxmire states: "As a matter of principle I am opposed to using the Social Security tax as a counter-cyclical fiscal instrument, either in times of recession or inflation. While I agree that the rates are now very heavy I am against an on-again, off-again policy with respect to the Social Security trust fund."
First, it is a simple proposal which could be enacted quickly, and its retroactive feature would give a boost to the economy when most needed.

Second, it would benefit all private wage and salary workers, including low-wage workers who are exempt from the income tax. This tax reduction would help offset the loss in real income due to recent price increases.

Another alternative would be to allow taxpayers, at their option, to substitute a $200 tax credit for each $750 personal exemption to which they are presently entitled. This change would provide tax relief for most families with annual incomes between $5,000 and $20,000. It would not affect families with incomes so low that they presently pay no income tax. Most families with incomes above $20,000 would benefit by continuing to take advantage of the personal exemption rather than substituting the credit. This tax reform would increase the progressivity of the tax system and would provide a fiscal stimulus of about $6 billion. The provision of this optional tax credit is superior to simply raising the personal exemption, which would be far costlier and would do nothing to increase progressivity.

Another possible tax reform, also adding to taxpayer equity, would increase the low-income allowance from $1,300 to $1,800 and raise the ceiling and the rate for the standard deduction. The standard deduction is now 15 percent with a $2,000 ceiling. Raising these to 20 percent and $2,200 respectively has the following advantages:

(a) The higher rate would give tax relief to moderate-income taxpayers who are unable to itemize deductions;

(b) The changes would reduce the disparity between itemized deductions and the standard deduction because the higher rate and ceiling would reflect the higher cost of deductible items.

The low-income allowance should be increased on the grounds that inflation has pushed up the poverty threshold since the allowance was enacted in 1969, and as a result, families below the poverty line now must pay taxes. The combined effect of increasing the standard deduction and the low-income allowance would be to reduce Federal revenues by approximately $3 billion.

In sum, we have suggested a shift in the composition of spending. Total outlays would be essentially unchanged, but employment would be increased by reducing non-essential programs and putting those funds into public employment. The change in the composition of spending should be accompanied by a tax reduction of $10 billion achieved in any one of various ways. This reduction should be partially offset by loophole plugging that would raise revenues by approximately $6 billion. Thus the Fiscal 1975 full employment surplus would be reduced from the amount proposed by the Administration to approximately the same level as in Fiscal 1974.

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*The income bounds within which families would benefit vary with family size. Small families would benefit at income levels below $5,000 and large families would benefit at levels above $20,000.

*Senator Humphrey states: "I support Senator Mondale's proposal to allow taxpayers to substitute a tax credit for the current personal exemption because it would provide relief directly to the low-income taxpayers who need it, at the least cost to the Treasury."
Chapter IV. MONETARY POLICY

Financial developments in 1973 were dominated by the great uncertainties induced by the year's rampant inflation, the slowing down of business growth as the year progressed, and the failure to achieve a satisfactory level of employment at any time throughout the year.

Interest rates rose during most of the year. Short-term rates reached new peaks, even exceeding yields on long-term securities. A credit crunch developed in the summer which curtailed mortgage loans and led to a severe cutback in housing starts.

Monetary policy in 1973 was basically restrictive, although often this was difficult to assess because of gyrations in the money supply. During the first quarter the money stock grew at an annual rate of less than 4 percent. Over the following three months the increase was at a rate of 11 1/2 percent. This was followed by an actual decline in the summer months and a rise of 7 1/2 percent in the final quarter of the year.

For the year as a whole, the money supply grew at a rate of 5.7 percent. This record compares with an increase of 8.7 percent in 1972. If, as there is some reason to believe, money supply variations act with a lagged effect on economic activity, there is cause for concern over the slow 3.6 percent growth in the money stock during the last half of 1973. A continuation of such growth would exert a drag on the economy in 1974. With all signs indicating further rapid increases in prices, for reasons quite beyond the control of the monetary authorities, such a monetary policy would exert its primary impact on real output and employment, deepening the recessionary trend already under way.

Monetary policy in 1974 should avoid the sharp swings in money supply which put interest rates on a roller coaster, sending them to the peaks reached last summer when growth in the money supply was brought to an abrupt halt.

All too often in the past, the Federal Reserve has embarked on a course of monetary restriction, disregarding the totally inequitable unequal impact which consequent rising interest rates have on different sectors of the economy. During periods of monetary stringency, the first groups to be hit are the housing industry, small businesses generally, and State and local governments.  

1 Senator Proxmire states: "I do not consider a 5.7 percent increase in the money supply a restrictive policy. It is at the high end of the 2 to 6 percent rate this Committee has advocated as a general rule."

2 Senator Bentsen states: "Killing-off the housing industry every few years with a restrictive monetary policy in an attempt to curb inflation, only adds to our long-term shortage of housing, thus increasing inflationary pressures in the long-run."

(32)
The Federal Reserve holds in its portfolio about $2 billion of Federal Agency issues, of which about three quarters are housing oriented. Such purchases have been grudgingly made and, more importantly, represent only token aid to one of our highest priority industries.

The Federal Reserve authorities should increase its open market operations in securities held by savings and loan associations and in home mortgages generally.

History shows that the monetary authorities move reluctantly to aid other vital segments of the economy, particularly State and local governments and small businesses, which are also disproportionately injured by restrictive monetary action. When credit demands are excessive, all major segments of the economy should bear their fair share of the impact of restraints on credit expansion. All too often, however, banks accommodate their prime customers in periods of tight money. Even when such customers are restricted, they have alternative sources of supply to which they can turn, such as the organized non-bank capital markets.

A Government-controlled credit organization should be created to make credit available to consumer borrowers, small businesses (including home builders), State and local governments, and to home buyers.

Structural Changes

The Federal Reserve System has from inception assumed different roles, depending on the pressures of the moment. On the one hand, as architect of national monetary policy, it must assert its position as an arm of the Government. That is, it must act in concert with other Government agencies responsible for overall economic policy. On the other hand, it will frequently cite its independence, and claim that it alone determines monetary policy, even in face of conflicts with other policies. This dichotomy must once and for all be ended. The Federal Reserve is an integral part of the Federal Government.

The Federal Reserve should pay into the Treasury all of its revenues, should come before the Congress—without reference to the Office of Management and Budget—for appropriations, and should be audited by the Comptroller General. The existing stock of the Federal Reserve System, which is now owned by member banks, should be retired.

The above reforms will, if adopted, make clear that the Federal Reserve is responsible to the Congress. The retirement of Federal Reserve stock will make it clear that the Government, and not member banks, own the Federal Reserve System.

3 Senator Bentsen states. "Further study is needed before changes in the present structure are made. Although there is room for reform, in principle we should maintain the flexibility and independence of the Federal Reserve System."

4 Representative Moorhead states: "I cannot entirely support this recommendation because I believe it is important to maintain the independence of the Federal Reserve in policy matters."
Chapter V. EMPLOYMENT AND LABOR MARKETS

For 1974 the objective of employment policy must be to reduce unemployment and to cushion the income losses of those who lose their jobs. At the same time, policymakers must keep working toward the longer-term objective of changing the structure of the economy to effect a major, enduring reduction in unemployment.

The Annual Report of the Council of Economic Advisers discusses the reasons why the overall unemployment rate associated with full employment may vary with changes in occupational structure and industrial mix. But what is distressingly lacking in the Council's report is any strategy for improving the structure of labor markets to bring about more favorable combinations of high employment and price stability.

Our longer term employment goal should continue to be an economy in which an unemployment rate no higher than 3 percent can be combined with a reasonable degree of price stability:

A variety of labor market changes can contribute to the realization of this goal. A permanent program of public service employment designed to serve those who cannot compete successfully in the regular labor market should be the major component of a comprehensive strategy. Job training, job placement, and firm anti-discrimination measures are also important.

The Joint Economic Committee has recently established a Subcommittee on Economic Growth. During the coming year this Subcommittee will be examining the means for achieving structural improvements in both labor and product markets.1

For 1974 primary consideration should be given to improving unemployment compensation programs and instituting an emergency public service employment program. These actions will cushion the impact of unemployment on the individual worker and also provide a counter-cyclical stimulus to the economy.

Unemployment Compensation

In view of anticipated high unemployment, action should be taken to increase the benefits and extend the duration of existing unemployment compensation programs. The present system provides 26 weeks of benefits, with 13 additional weeks if the seasonally adjusted insured unemployment rate for the Nation is above 4.5 percent for three consecutive months. Individual states may receive an additional 13 weeks if their insured unemployment rate is above 4 percent for 13 consecutive weeks and their unemployment rate is 20 percent above

1 See supplementary views of Senator Bentsen.
the rate for the same 13-week period for the two previous years. Individual eligibility is determined by the number of consecutive weeks spent in the work force, with the minimum requirement ranging from 14 to 20 weeks, depending on the State. The amount of benefits is 50 percent of the worker's average weekly wage, up to a maximum that varies from State to State.

In Fiscal 1973 almost two-fifths (38.7 percent) of all claimants received less than 50 percent of their average weekly wage. In previous years this figure has been higher (above 50 percent in 1970 and 1971). A greater number of workers should be receiving 50 percent of their average weekly wage. To achieve this goal the maximum weekly benefit should be raised to two-thirds of the average weekly wage in each state. States should be given two years to change their laws and the Federal Government should provide interim financing. The cost of such a program would be approximately $1 billion in Fiscal 1975.

The maximum weekly unemployment benefit should be raised to two-thirds the average wage in each State, and each individual recipient should receive at least 50 percent of his weekly wage, up to the maximum.

The duration of benefits should be extended whenever national insured unemployment rates exceed a specified rate. Presently the rate of seasonally adjusted insured unemployment must be 4.5 percent before the duration of benefits is extended nationally. Insured unemployment of this magnitude typically corresponds to a total unemployment rate of about 6.5 percent. The requirement should be lowered to a 3.5 percent rate of insured unemployment corresponding to a total unemployment rate of about 5.5 percent.

An additional 13 weeks of benefits should also be available in any local labor market experiencing an insured unemployment rate in excess of 4 percent. Thus, if the national rate exceeded 3.5 percent and the local rate 4 percent, that labor market would receive 52 weeks of benefits (26 weeks of basic compensation plus 13 weeks additional compensation for high national unemployment and 13 weeks for high local unemployment). This extension in benefits could be financed by the Federal Government at a cost of up to $2 billion a year.

The duration of benefits should be extended 13 weeks nationwide as long as seasonally adjusted insured unemployment exceeds 3 1/2 percent and should be extended in any given labor market whenever insured unemployment in that area exceeds 4 percent, regardless of the national rate. The existing requirement (for extended benefits) that insured unemployment in an area must also average 20 percent above the previous two years should be abolished.

Public Service Employment

Coming high unemployment rates dramatize the need for a public service employment program. The Emergency Employment Act of 1971 demonstrated the efficacy of a public service employment pro-
gram. Public service programs can be activated with reasonable speed (100,000 jobs were filled in the first five months of the Emergency Employment Act) and have low administrative costs per job created (94 percent of the Federal funds were used for job creation, with less than 5 percent used for Federal and local administrative costs). The program’s success in creating jobs per dollar spent cannot be matched by any other type of public expenditure. Thus the public service employment program can be an effective countercyclical tool and is essential to any strategy to achieve high employment.

A permanent public service employment program should be available for activation whenever national unemployment rates exceed 4.5 percent for any 3 month period. It should be targeted at those groups bearing a proportionately high share of the unemployment burden. If 125,000 jobs were added for each 0.5-percent increment in the unemployment rate, such a program could employ approximately 25 percent of those unemployed in excess of the 4.5 percent trigger level. A program of this type would cost approximately $2 billion per year at 6 percent unemployment, assuming an expenditure of $8,000 per job.

A permanent public service employment program should be instituted that would be activated whenever the level of total national unemployment exceeded 4½ percent. Funding should increase as unemployment rises. The benefits of this program should be directed particularly at high unemployment areas and groups.

Unemployment Statistics

Both the Comprehensive Employment and Training Act and recent unemployment compensation proposals are dependent on accurate measurement of State and local unemployment rates to correctly distribute the funds. At present, the Bureau of Labor Statistics (BLS) hires the Bureau of the Census to collect monthly unemployment data. However, the existing sample size is only large enough to be statistically significant for 19 states and approximately 30 metropolitan areas. The method used to estimate unemployment in the remaining states and areas is too inaccurate to use for funding a major Federal program.

The Bureau of Labor Statistics budget should be increased so that the Current Population Survey sample size can be enlarged to provide accurate monthly unemployment data for more states and a larger number of standard metropolitan statistical areas. The data should then be adequate to administer Federal programs for which state or local unemployment is used to allocate funds.
Almost regardless of what index is examined, the pace of price increases more than doubled during 1973 and reached the highest rates since the post-World War II years of 1946 and 1947. Consumer prices, for example, jumped from a 3.4 percent rate of increase during 1972 to 8.8 percent in 1973. The effect of such price increases on the cost of living has been dramatic, with a middle-income family having to spend an extra $1,200 in 1973 just to maintain 1972 living standards. Nor were money income gains generally sufficient to offset cost-of-living increases. The real purchasing power of the typical family declined more than 1 percent during 1973.¹

The marked acceleration of inflation in 1973 raises the following questions: Why did inflation increase so much during 1973? What does this tell us about the effectiveness of the existing price-wage control program? What is the price and wage outlook for 1974? What should be done to combat inflation?

Inflation and Controls During 1973

The pressure on prices in 1973 can be traced primarily to four specific causes. First, wholesale farm and processed food prices rose 27 percent, leading to a 20-percent increase in retail food prices. Second, reductions in energy supplies forced prices up. Third, the depreciation of the dollar and international boom conditions increased domestic prices directly through higher prices for imported goods, and indirectly by stimulating export demand for selected products such as lumber. Fourth, and related to the international boom, a group of basic materials industries encountered capacity limitations in 1973 that put strong upward pressure on industrial commodity prices. For example, the Economist index of world commodity prices (in dollars) increased 46.2 percent in the year ending January 2, 1974, with food prices increasing 38.6 percent, fibers up 21.3 percent and metals up 86.7 percent.

The food, energy, and commodity inflation of 1973 occurred almost entirely outside of the price-wage control system. As a result, the past year provides meager evidence for or against the use of controls as an anti-inflationary tool. What evidence is available suggests that the Phase I and Phase II controls of 1971–72 reduced the rate of increase in both prices and wages as much as one or two percentage points. It is more difficult to determine the effectiveness of controls during 1973 because of their irregular application.

In fact, the Administration's continued ideological opposition to controls, or any other form of Government influence on price-wage

¹ For further analysis of the impact of inflation see "Inflation and the Consumer in 1973," a staff study prepared for the use of the Subcommittee on Consumer Economics of the Joint Economic Committee, Jan. 14, 1974.
decisions, surely decreased whatever impact controls did have on inflation. Indeed, their vacillation on controls has seriously undermined private sector planning and credibility in Government. The abrupt abandonment of Phase II on January 11, the imposition of a meat ceiling on March 29, and the establishment of a second freeze on June 13, constituted a dizzying series of events that was economically unjustified and socially disruptive. As Dr. Gardner Ackley testified before the Committee: “The record is one of political expediency, of an absence of clear plan or firm intention, and unresolved ideological tensions within the Administration.”

Rather than an indictment against controls, the 1973 inflation illustrates mismanagement of several programs. The Department of Agriculture failed to accurately forecast foreign food demand, which, when combined with the Department’s delay in ending crop restrictions in 1972, caused much of the 1973 food price increase. Restrictions on Federal housing assistance programs significantly reduced housing starts during 1973 and contributed to housing price increases. The failure to eliminate the oil import quota, and acceptance of the oil industry’s assurances contributed to a retardation of growth in U.S. refining capacity, fuel shortages, and high prices.

Although the 1973 inflation does not provide evidence that controls were ineffective, compulsory price and wage controls should not be continued at this time for at least three reasons.

First, the credibility of the Administration’s control program has been severely damaged. Even though the bulk of recent inflation has occurred outside of the control system, public confidence has been undermined by the vacillation and by the huge price increases that occurred during 1973.

Second, we have always believed that compulsory controls would be primarily effective as a short-run tool for dampening inflationary expectations and preventing the abuse of market power. Controls should not be maintained over a long period of time, absent a national emergency.

Third, the most appropriate time to remove a compulsory control system is during a downturn in the economy such as we are now experiencing.

The present system of uneven and poorly managed wage and price controls should be phased out in a manner that does not create new economic uncertainties and a further acceleration of inflation. As a replacement for existing legislation, Congress should authorize a permanent mechanism to administer a set of largely voluntary price-wage policies.²

The Price Outlook

In January and February food and fuel price increases, which accounted for the bulk of the 1973 inflation, continued at rates that would worsen rather than improve the price outlook. In the face of these price increases Administration spokesmen have nevertheless argued that the current high rate of inflation will be with us for only

² Senator Proxmire states: “I have no objection to studying the possibilities of a proper incomes policy in the future. But we should first have some experience under the free market for a time and then determine the basis for the future.”
the first half of 1974. Unfortunately, this projection is similar to the Administration's 1973 forecast, a year in which prices seriously accelerated in the second half of the year.

Several factors indicate inflation will continue at high rates throughout much, if not all, of the second half of 1974. The elimination of most of the control system on May 1 can be expected to create some bulge as firms attempt to catch up with commodity price increases and widen profit margins. Agricultural and industrial commodity prices, which might be expected to fall sharply in a weakening world economy, may remain relatively firm because of stockpiling to offset recent shortages and to hedge against inflation. Furthermore, as Dr. Dunlop has warned the committee, high petroleum and energy costs are far from having worked their way through the economy. In fact, recent wholesale price increases have in general not yet worked their way through to the retail level. Finally, as we discuss below, wage pressures will intensify.

The Wage Outlook

Although there was evidence of an acceleration in wage increases late in the year, for 1973 as a whole wage behavior reflects labor's cooperation with a remarkably effective wage control system. As indicated in Table 3, major collective-bargaining settlements, whether measured in first-year or lifetime increases, were considerably lower in 1973 than 1972. Viewed in a historical perspective, the low level of 1973 settlements is even more remarkable. The various indicators for bargaining settlements are the lowest since the 1966–1968 period, with first-year changes in new contracts the lowest since 1966. The rate of wage increases as measured by the broader hourly earning index also dropped in 1972 and did not accelerate in 1973.

Given the modest increase in money wages that occurred in 1973, prices outran wages and a decline in real wages occurred. Hourly earnings adjusted for inflation showed no gain on the average from 1972 to 1973, and a 2.0 percent decline when measured from December 1972 to December 1973. Due to accelerating inflation, shorter working hours, and higher taxes, real spendable weekly earnings showed a huge 4.0 percent decline from January 1973 to January 1974.

<table>
<thead>
<tr>
<th>TABLE 3.—SELECTED MEASURES OF PRICE AND EARNINGS</th>
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<tbody>
<tr>
<td>(Percent change over previous year)</td>
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<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Consumer price index</td>
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<tr>
<td>5.9</td>
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<tr>
<td>Average hourly earnings</td>
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<tr>
<td>6.7</td>
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<tr>
<td>Real average weekly earnings</td>
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<tr>
<td>-1.6</td>
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<tr>
<td>Real spendable weekly earnings</td>
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<tr>
<td>-1.2</td>
</tr>
<tr>
<td>First year wages and benefits in major labor agreements</td>
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<tr>
<td>13.1</td>
</tr>
<tr>
<td>Average wage and benefit increase over life of contract</td>
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<tr>
<td>9.1</td>
</tr>
</tbody>
</table>

1 Adjusted for overtime (manufacturing only) and interindustry employment shifts.
2 Total private nonagricultural.
3 Statistically insignificant change.
4 Preliminary.

This erosion of real income will understandably result in increased labor pressure for higher wage and benefit settlements during 1974.
Increases in hourly earnings accelerated from a 5.8 percent annual rate in the first half of 1973 to a 7.2 percent annual rate in the second half of the year. Moreover, little or no economic growth meant limited productivity gains, and a sharp rise in unit labor costs. In the fourth quarter of 1973 productivity in the private nonfarm sector declined 1.9 percent, causing unit labor cost to rise at an annual rate of about 10 percent.

The danger in the present situation is that labor will attempt to regain all lost purchasing power and, in so-doing, will trigger wage-price increases that could accelerate inflation. While labor's desire to regain all cost-of-living losses is understandable, crucial to any hope for slowing inflation is preventing the 1973 increases in food and fuel prices from spilling over into the main body of wage settlements in the non-farm economy. The transfer of real income abroad resulting from devaluation and oil price increases, and the transfer of income to agriculture via food price increases entail a loss of real income for the entire domestic nonfarm sector of the economy. This loss cannot be restored through excessive wage increases, which will only serve to push up prices even more.

For workers to accept moderate wage increases in 1974, however, it is essential to restore some of the real income lost. Real income losses can be partially restored through a reduction in taxes for middle and lower income wage earners. This action would dampen the wage-price spiral and help restore workers' confidence by stimulating the economy and creating additional jobs.

In cooperation with labor and business, the Federal Government should use its influence to encourage wage increases that are tied to long-run productivity and price trends. As recommended above, a tax reduction would restore some of the purchasing power workers have lost because of unusually high cost of living increases, and help reduce the drive for inflationary wage increases.

Further Policies

The price and wage outlook is bleak. As indicated above, mandatory price-wage controls should be phased out. This recommendation does not mean that the Federal Government should abandon all efforts to influence price and wage decisions.

In the last year we have seen that inflation is a hydra-headed problem, and a more sophisticated set of policy instruments must be developed to deal with it. Appropriate monetary and fiscal policies are a first requisite for price stability. But these aggregate policies must be coordinated with specific programs directed at particular sectors of the private economy and at the relationship of the domestic economy to the world economy. We can no longer afford to base anti-inflation policies on an aggregate view of how the economy works.

Rather than developing more detailed anti-inflation policies, the Council of Economic Advisers has treated inflation in ideological terms. It has not developed new explanations for the causes of inflation. Nor has it recommended how to reduce commodity shortages, how to intensify competition in private markets, what Federal
Government activities should be altered or terminated because they are inflationary, or how to properly integrate domestic planning with external economic developments.

As required by the Employment Act, the Council of Economic Advisers should assume its full responsibilities to develop long-range anti-inflation policies. These policies should be based on whatever studies are necessary to understand the inflation problem. If conducting these studies requires some modest addition in staff, the required personnel should be hired.3

The Council’s activities should be supplemented by a permanent institution to administer a largely voluntary price-wage review system. Such an institution would focus on immediate inflationary developments arising out of either private market deficiencies or inflationary government activities. It would also monitor price and wage changes, delay and hold hearings on major price or wage decisions that could seriously undermine price stability, and make recommendations to the private or government parties involved.

These responsibilities could be met by the Cost of Living Council or by a new board or agency. Unfortunately, the Administration’s economic stabilization proposals are too vague for Congress to accept. Dr. Dunlop’s description of the new Cost of Living Council leaves us unsure about whether it will be a study group, a planning agency, or a price-wage review board. We are also concerned that the Administration proposal will result in the perpetuation of a large and unnecessary bureaucracy.

An institution should be established to administer price-wage policies on a continuing basis. It should operate under the following guidelines:

(1) Policy should be focused on specific private and public activities that threaten to seriously undermine price stability.

(2) It should be run by a single administrator supported by a modest full-time professional staff.

(3) Authority should be provided to obtain reports on prices and wages, to delay and hold hearings on prospective price or wage increases, and to make recommendations on the resolution of individual cases.

(4) As indicated below, an information system for monitoring price and wage behavior should be continued.

(5) Labor, business, and consumer groups should participate in the formulation of policy. In addition, an ombudsman should be appointed to respond to complaints about price-wage practices.

3 See supplementary views of Senator Bentsen.
The maximum degree of voluntary compliance should be sought, but limited enforcement power should also be provided. The establishment of a largely voluntary price-wage review system does not eliminate the need for the President to have some standby authority to reimpose price-wage controls. During a period in which we may see a further acceleration of inflation, Congress has the responsibility to provide for contingencies. If rampant inflation should threaten, controls may again be necessary. In addition, standby authority for controls will give those administering the price-wage system additional leverage in encouraging price stability.

Congress should provide the President with limited standby authority to reimpose price and wage controls on particular sectors of the economy. Such authority should be invoked only after the President has determined that the benefits from such controls outweigh any adverse consequences and has explained his determination to the Congress. The authority should also provide that controls imposed by the President may, within 60 days, be modified or rejected by concurrent resolution of the Congress.

The Need for Line-of-Business Reporting

As a result of its continuing review of Federal statistical programs, the Joint Economic Committee has become aware of many areas in which economic statistics should be strengthened. None, however, is more crucial at the present time than the prompt institution of a program to provide data on sales, costs, and profits by major lines of corporate business. Proper implementation of the Federal Trade Commission's proposed Annual Line of Business Report Program would fill this critical gap in existing economic statistics. Individual company data would be kept completely confidential, but aggregate data by major product lines would be made public.

4 Senator Proxmire states: "I am opposed to establishing a new institution to administer wage and price policies on a continuing basis mainly because wage-price controls have essentially been wage controls with no price controls. I am opposed to granting any enforcement power for the time being. Before I could agree to any new mechanism I would want to have extensive hearings after two or three years of experience under the free market."

5 Senator Bentsen states: "I am not in favor of the recommendations to create a permanent price-wage review board and to provide Presidential stand-by control authority. My Subcommittee on Economic Growth will investigate better long-term policy options to combat and minimize the effects of inflation."

6 Senator Proxmire states: "I am flatly opposed to granting the President any standby authority. This is the trap Congress fell into in 1970 when we surrendered to the President the most important economic power we have with full discretion in the hands of the President both as to how and when he would use it."

"For a Congress which has been complaining, rightfully in my view, of its loss of power to the Executive, granting the President standby authority to reimpose price and wage controls would be a copout."
The Federal Trade Commission is to be commended for the preparatory work that it has done on the proposed Annual Line of Business Report Program. A meaningful program should now be instituted as rapidly as possible. There is no basis for further delay.

It is difficult to understand why the current lack of product line information has been tolerated for so long. Information for small firms which produce only one product line is available, but information for multi-product firms is hidden in meaningless conglomerate totals.

The Federal Trade Commission’s Quarterly Financial Report for manufacturing corporations is supposed to contain financial information by industry. However, all the activities of a multi-product firm are assigned to a single industry—whether they belong there or not. The Federal Trade Commission’s own studies suggest that at least one-third of the data in the Quarterly Financial Report is misclassified into the wrong industrial category. In some of the industry groupings, 60 to 70 percent of the totals shown are misclassified.

Furthermore, the industries shown in the Quarterly Financial Report are too broad to be of much use. Cigarette lighters and electric blankets are placed in the same industry group as space satellites and missile guidance systems. The Line of Business Program would divide this broad “electrical machinery” industry into a number of smaller and more meaningful product groups. Similarly, the “fabricated metal products” industry would be subdivided into more meaningful lines of business. It would thus become possible to distinguish sales of ordnance and ammunition from sales of razor blades and garden tools.

This product line information is badly needed by the executive branch to enable it to contract intelligently for both civilian and defense purchases. It is needed by the Congress in the exercise of its oversight function. And it is needed by the public, which surely has a right to know how profits in predominantly military lines of business compare with profits of other types of production.

Line of business information is also needed for the administration and evaluation of any meaningful price-wage program. The public has a continuing interest in the price-setting activities of large corporations. Intelligent evaluation of these pricing decisions requires separate financial information on, for example, the steel producing and non-steel producing activities of the major steel companies. It requires separating their domestic from their foreign production, and it requires separating the different types of steel produced. An adequate Line of Business Program would give the public this information, not, of course, for individual firms, but by industry totals.

A third major reason why this information is needed is for accurate analysis of the extent of industrial concentration. Anti-trust enforcement and other efforts to deal with monopoly and oligopoly power are difficult to pursue successfully when we cannot even accurately measure the degree of concentration in the production of specific products.

Legislation passed by Congress within the past year has removed the necessity for the Federal Trade Commission to obtain the Office of Management and Budget’s approval for this program. Funds for this program were included in the fiscal 1973 budget, but were not used.
Funds have again been included in the Budget for fiscal 1974 and 1975. It is now incumbent on the Federal Trade Commission to develop a meaningful, but not excessively detailed, report form and to institute the program without delay.

Until such time as the Federal Trade Commission’s Line of Business Program has been implemented and results become available, the Cost-of-Living Council (or any successor agency) should continue its present program of collecting cost, sales, price, and profit data.

In considering the extension of the Economic Stabilization Act, Congress should insure that the provisions defining the extent to which this information must be made public are kept in effect.

Any successor to the Cost-of-Living Council should develop whatever business reporting procedures are required for the successful execution of its assigned responsibilities. It may, of course, need to collect reports different from those being gathered presently on a quarterly basis from large firms by the Cost-of-Living Council. However, the most useful product line data now being collected anywhere in Government is that contained in the Cost-of-Living Council’s quarterly report forms. Because of technical differences in coverage and definition, these series are not fully consistent with the reporting categories proposed by the Federal Trade Commission. The aggregate series that could be compiled from Cost-of-Living Council data would not represent a fully adequate line-of-business data program. Nonetheless, some data are better than none. These series should continue to be collected on a consistent basis until such time as they can be replaced with an official line of business reporting program of the type proposed by the Federal Trade Commission.

When the Economic Stabilization Act was extended in April of 1973, Congress added a provision requiring the disclosure of certain data from the Cost-of-Living Council report forms that it was determined could be made available without damaging the competitive positions of the reporting firms. Court action was subsequently required to compel the Cost-of-Living Council to comply adequately with this provision. Because of the reluctance of the Cost-of-Living Council and other executive agencies to disclose even minimum amounts of information unless required to do so by law, Congress should insure that, in any new legislation relating to price-wage policy, the existing requirements mandating public disclosure are maintained, or indeed, strengthened.
Chapter VII. TAX, SPENDING, AND BUDGET REFORM

In addition to its role in stabilizing economic activity, the tax system also affects the distribution of income. Until the 1960's, the U.S. relied ostensibly on the graduated personal income tax to perform this function. During the 1960's, however, with the advent of the Great Society programs, the Federal Government increased its budget expenditures to aid the lowest income families. As a result, the 20 percent of families at the bottom of the income scale experienced a significant increase in income. Although starting from a very low base of $2,000, from 1961 to 1968 these families experienced a 50 percent rise in their real incomes. By comparison, the real incomes of all families grew 27 percent.

A combination of budget expenditures and high employment during these years also benefited the next two quintiles of families, so that the lowest three-fifths of families increased their share of total income through 1968. As Table 4 shows, these gains in income shares were made largely at the expense of the highest income families.

<table>
<thead>
<tr>
<th>TABLE 4.—PERCENT DISTRIBUTION OF AGGREGATE FAMILY INCOME</th>
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<tbody>
<tr>
<td>All families (total)</td>
</tr>
<tr>
<td>Lowest three-fifths</td>
</tr>
<tr>
<td>Fourth fifth</td>
</tr>
<tr>
<td>Highest fifth</td>
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</table>

Since 1968, however, the share of income going to the highest fifth increased at the expense of the lowest three-fifths, primarily as a result of the high unemployment brought on by the 1969-70 recession. This most recent experience confirms the thesis that the before-tax income distribution is closely tied to the growth of the economy. During periods of recession those workers holding relatively unskilled jobs or who have been recently hired will be the first to lose their jobs. These workers are likely to be at the lower end of the income scale and, as a disproportionately large number lose their jobs, their relative position deteriorates. Conversely during periods of expansion, such as the mid-1950's and from 1965-1968, these low income workers and their families usually increase their share of aggregate income.

Since 1968 the lowest three-fifths of families have lost 1 percent of their share of aggregate income, a loss which is significant statistically and which reflects a $10 billion shift from those families at the lower end of the income scale to the highest fifth.

Although there are no data on the distribution of after-tax income, experts suggest that it would not differ significantly from the figures shown in Table 4. Dr. Ben Okner, in testimony before this Commit-
tee, stated that “direct personal taxes appear to have had little effect on the distribution of income. . . . There is little effective progression in the tax structure.” This statement applies to most taxpayers except those at the very bottom and very top of the income scale.

It is also useful to examine the impact of inflation on income distribution. In periods when price increases are about the same for all kinds of products, the rich and poor will suffer the same incidence of inflation. During 1973, however, price increases were concentrated in food, fuel, and housing, items which constitute a disproportionately large share of the low income family’s budget. A recent staff study by this Committee concluded that prices for the poor rose 10.8 percent during 1973, compared to an 8.5 percent price rise for the high income family. In effect, the poor suffered one-fourth more inflation than did upper income consumers. So that even though 1973 was a year of rising employment, which should have increased the income share of the poor and the near poor, the rate of inflation had such a differential impact on the poor that their share of real income may well have declined.

The CEA’s discussion about income distribution in this year’s report presents valuable factual data but fails to make any recommendations on how relative income shares can be altered. This omission is most disappointing. The report contains no proposal for welfare reform, no recommendation on maintaining income during this period of high unemployment, and no discussion of tax reform.

The distribution of income should be made significantly more equitable through a comprehensive income maintenance system, elimination of various tax preferences which favor the highest income families, and a reform of the regressive payroll tax. In the absence of Administration leadership, Congress in this session should initiate each of these reforms.

**Tax Reform**

The spending side of the Federal Budget receives, unfortunately, almost exclusive attention in analyses of the government’s impact on the economy. However, there are also a significant number of tax provisions which reduce the revenue raised by personal and corporate income taxes. These tax preferences are a form of budget expenditure in that they provide subsidies to various taxpayers. Some examples are the oil depletion allowance, agricultural subsidies, the deductions for mortgage interest and charitable contributions.

Table 5 indicates that tax preferences, or tax expenditures, make up more than 20 percent of Federal spending. For some functional budget categories, such as natural resources, housing, and commerce and transportation, tax expenditures constitute more than 50 percent of the Federal Government’s fiscal impact, yet these tax preferences are ignored during the annual budget process.

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### TABLE 5. — ESTIMATED BUDGET OUTLAYS AND TAX EXPENDITURES, CLASSIFIED BY FUNCTION, FISCAL YEAR 1975

[Dollar amounts in billions]

<table>
<thead>
<tr>
<th>Function</th>
<th>Budget Outlays</th>
<th>Tax Expenditures</th>
<th>Total of Outlays and Expenditures</th>
<th>Tax expenditures as percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National defense</td>
<td>$87.7</td>
<td>$0.7</td>
<td>$88.4</td>
<td>0.8</td>
</tr>
<tr>
<td>International affairs and finance</td>
<td>4.1</td>
<td>.9</td>
<td>5.0</td>
<td>18.0</td>
</tr>
<tr>
<td>Space research and technology</td>
<td>3.3</td>
<td>0</td>
<td>3.3</td>
<td>0</td>
</tr>
<tr>
<td>Agriculture and rural development</td>
<td>2.7</td>
<td>1.1</td>
<td>3.8</td>
<td>28.9</td>
</tr>
<tr>
<td>Natural resources and environment</td>
<td>3.1</td>
<td>3.6</td>
<td>6.7</td>
<td>53.7</td>
</tr>
<tr>
<td>Commerce and transportation</td>
<td>13.4</td>
<td>24.4</td>
<td>37.8</td>
<td>64.6</td>
</tr>
<tr>
<td>Community development and housing</td>
<td>5.7</td>
<td>13.2</td>
<td>18.9</td>
<td>65.8</td>
</tr>
<tr>
<td>Education and manpower</td>
<td>11.5</td>
<td>1.0</td>
<td>12.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Health</td>
<td>26.3</td>
<td>6.9</td>
<td>33.2</td>
<td>20.8</td>
</tr>
<tr>
<td>Income security</td>
<td>100.1</td>
<td>11.7</td>
<td>111.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Veterans benefits and services</td>
<td>13.6</td>
<td>15</td>
<td>28.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Interest</td>
<td>29.1</td>
<td>0</td>
<td>29.1</td>
<td>0</td>
</tr>
<tr>
<td>General government</td>
<td>6.8</td>
<td>1</td>
<td>6.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Aid to foundations and charities</td>
<td>0</td>
<td>3.7</td>
<td>3.7</td>
<td>100.0</td>
</tr>
<tr>
<td>General revenue sharing aid to State and local governments</td>
<td>6.2</td>
<td>10.4</td>
<td>16.6</td>
<td>62.6</td>
</tr>
<tr>
<td>Allowances</td>
<td>1.6</td>
<td>0</td>
<td>1.6</td>
<td>0</td>
</tr>
<tr>
<td>Undistributed intragovernmental transactions</td>
<td>-10.7</td>
<td>0</td>
<td>-10.7</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>304.4</strong></td>
<td><strong>78.2</strong></td>
<td><strong>382.7</strong></td>
<td><strong>20.4</strong></td>
</tr>
</tbody>
</table>

Source: Tax Analysts and Advocates and Ben Okner, Senior Fellow, the Brookings Institution.

Many of the provisions in the Tax Code which reduce the revenue raised by personal and corporate taxes were originally introduced for what seemed at the time to be legitimate reasons. However, studies prepared for this Committee have shown that a number of tax subsidies do not work, work inefficiently, or have an adverse impact on the economy. Congress should consider tightening various tax provisions which benefit individuals or corporations but which do not yield the desired public benefits. Among others, capital gains provisions, the Asset Depreciation Range, and estate and gift tax provisions should be reformed.

This year the energy shortage has provoked a widespread discussion of the tax liability of oil companies. The Administration has proposed an excise tax on crude oil to be levied only on that part of the per barrel price of crude oil in excess of $4.75.

Others have proposed an excess profits tax similar to those used during wartime. The available evidence suggests that this type of tax is difficult to administer because of problems in determining an appropriate base period and because of the relative ease with which corporations can reduce their taxable profits. Furthermore, it would be inconsistent to impose an excess profits tax on an industry which continues to benefit from substantial tax subsidies. Although the Administration has proposed reducing some tax preferences, their revenue impact on oil companies would be quite small. The reduction or elimination of tax preferences given to oil companies is a more desirable alternative to an excess profits tax.²

² For further discussion of tax preferences available to oil companies see “A Reappraisal of U.S. Energy Policy,” a recent report issued by three Subcommittees of the Joint Economic Committee.
Percentage Depletion.—At present the tax code permits oil, gas and mineral extracting firms to choose between cost and percentage depletion for recovering acquisition costs. Percentage depletion bears little or no relation to the original investment cost, to the producing life of the property, or to replacement costs. Requiring these corporations to use cost depletion would move them closer to tax treatment of other industries.

Expensing of Exploration and Drilling Costs.—Most of the costs of drilling a successful well are deducted in the year incurred rather than depreciated over time, as are other investments. The current expensing of these intangible drilling costs has been justified in the past on the grounds that producers, especially small independents, would have difficulty raising capital in their absence. However, current high prices will probably attract sufficient capital into exploration. The repeal of percentage depletion and current expensing of intangibles would raise approximately $3 billion annually, the same revenue as the proposed excise tax on oil. Repeal of existing tax provisions would permanently improve the tax system, whereas the excise tax would be a temporary measure phased out over 5 years.

Foreign Tax Preferences.—In addition to the above tax reforms, the tax preferences granted to corporations with investments overseas also should be revised. Currently, the tax system tends to encourage American corporations to invest abroad, rather than in the U.S., by treating royalties paid in other countries as tax credits, by allowing the crediting of excess taxes paid in one foreign country against income earned in another foreign country, and by deferring taxation on income earned abroad until it is repatriated.

The royalties paid to foreign governments for the use of oil bearing land are currently treated as taxes paid and thus are credited against U.S. tax liability. This contrasts with royalties paid to holders of oil producing property in the U.S., which are treated as ordinary business expenses and claimed as a deduction against income. This provision favors production of oil abroad rather than domestically, since a tax credit reduces the total taxes paid by oil companies much more than a tax deduction. Congress should abolish this unfair incentive to invest abroad by reclassifying royalties as royalties rather than permitting them to be claimed as tax credits.

Furthermore, taxes paid in one foreign country should be credited only against U.S. taxes due on income earned in that country. At present, if a corporation pays taxes or royalties in one foreign country which exceed its U.S. tax liability on income earned in that country, it can apply the excess credits against U.S. taxes owed on income earned in another foreign country. This provision allows income earned in low tax foreign countries to largely escape taxation in the United States and encourages the proliferation of foreign subsidiaries of U.S. corporations.

In addition to these changes, American corporations should no longer be allowed to defer payment of taxes on income earned abroad until it is repatriated. This provision induces corporations to expand abroad, rather than domestically, because their foreign operations are virtually free of U.S. taxes. The effect of the above three
provisions is that the tax code rewards investment abroad. Repeal of
the tax crediting of royalties paid, of the indiscriminate crediting of
taxes against income earned abroad, and of the deferral of tax until
income is repatriated would not discourage foreign investment, but
would make the tax system neutral, neither supporting nor penalizing
investment overseas.

Special tax benefits granted to oil companies and to
American firms investing abroad should be eliminated or
sharply reduced. Specifically (a) the percentage deple-
tion and current expensing of intangible drilling costs
should be eliminated on both domestic and foreign opera-
tions; (b) payments to foreign governments for mineral
extraction rights should be classified as royalties and not
as taxes; (c) the practice of crediting taxes paid on
foreign government against U.S. taxes due on incom:
eared in another foreign country should be disallowed;
(d) the deferral until repatriation of income taxes on
earnings generated abroad by foreign subsidiaries of U.S.
corporations should be abolished.3

Minimum Income Tax.—In 1969 Congress passed a Minimum Tax
on individuals designed to end abuses of the personal tax system. It
was directed towards those who arranged their financial affairs in
order to obtain excessively large amounts of deductions and exclu-
sions from income. The present law imposes a 10 percent tax on the
amount of an individual's tax preferences (including accelerated de-
preciation on real and personal property, percentage depletion, capital
gains and stock options) in excess of his taxable income plus $30,000.

Since this tax is levied at only a 10 percent rate on fairly large
tax preferences, it has allowed many individuals who benefit from
these preferences to continue to escape taxation. That the tax has
raised only about $200 million annually confirms its ineffectiveness.

A proposed reform, which would significantly strengthen the mini-
mum tax, was submitted to Congress by the Administration last year.
The Minimum Taxable Income (MTI) proposal would add to an indi-
vidual's adjusted gross income the following tax preferences: per-
centage depletion, excluded long-term capital gains, exempt income
from foreign sources and currently non-taxable stock options. From
this total would be subtracted certain personal exemptions and
expenses.

The resulting total would be divided in half to arrive at a minimum
taxable income. The income would then be taxed at graduated rates
from 14 to 70 percent. This revision of the minimum income tax would
make the tax system more equitable by requiring those who benefit
from preferences to pay the same rates as others. The flat 10 percent
tax in the current law does not meet this objective. Taxpayers would

3 Senator Bentsen states: "I reserve judgment on any changes in the tax struc-
ture affecting oil and gas production and income from foreign sources until the
Senate Finance Committee considers these matters later this year. In order to
meet the increasing national needs for greater domestic exploration and devel-
opment, it is important to insure adequate amounts of capital for drilling and
production."
continue to compute their tax on adjusted gross income unless this total were less than the minimum taxable income. The Treasury expects that MTI would raise approximately $1 billion per year in contrast to the $200 million in revenues from the current law.

The Administration's minimum income tax proposal (MTI), which would tax at least half of certain tax preferences at a graduated rate, should be enacted. This proposal should be given priority in the interests of improving tax equity, of restoring taxpayer confidence in the tax system and of raising additional revenue.4

Social Security Reform.—In the past 15 years the burden of the payroll tax has increased sharply, especially for low income taxpayers. And the share of Federal revenues derived from the payroll tax has also expanded significantly. Table 6 shows that in Fiscal 1975, almost 30 percent of Federal revenues will come from social security taxes, compared to 16 percent in 1960.

<table>
<thead>
<tr>
<th>TABLE 6.—SOURCES OF FEDERAL TAX REVENUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Percent distribution]</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1960</td>
</tr>
<tr>
<td>------------------------------------------</td>
</tr>
<tr>
<td>Social insurance</td>
</tr>
<tr>
<td>Individual income taxes</td>
</tr>
<tr>
<td>Corporate income taxes</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

This shift in the tax system toward a greater reliance on the payroll tax results in a loss of overall progressivity. Since the social security tax is levied at a flat rate on only the first $13,200 of income, it falls most heavily on those with low and modest incomes. The combined effect of the payroll and personal income tax is to make the tax system essentially proportional. Thus, a family earning $10,000 per year is paying roughly 25 percent of its income in taxes, as is a family earning $25,000 or $30,000 per year.

Another deficiency which should be corrected is the double taxation of two-earner families. If both a husband and wife work and each make $13,200, they will pay together $1544 per year in payroll taxes. A family where only the husband works and earns $26,000 will pay half this amount, or $772. Yet the benefits received by the two-earner family are not double those of the one-earner family but only 40 to 50 percent higher. In the case where a wife works and earns $6,000 per year she will pay $350 in social security taxes. But upon retirement she and her husband will receive no more in benefits than a family in which only the husband worked. A third inequity prohibits divorced women who have not worked from benefiting from their husband's social security pension.

In Chapter III, we suggested a temporary reduction in the payroll tax rate from 11.7 to 10.4 percent as a possible anti-recession measure.

4 Senator Bentsen states: "I reserve judgment on this recommendation until the Senate Finance Committee considers the matter later this year."
In any event, Congress should use the next year to reform the social security tax. The payroll tax could be made progressive by introducing exemptions and deductions into the payroll tax structure with the effect of exempting the lowest income earner, imposing progressive tax rates and removing the taxable earnings ceiling.

Over time, as more two-earner families have been included in the labor force and as the base and rate of the payroll tax have been raised, the social security system has become inequitable. Congress should in the coming year reform the payroll tax to make it progressive and to eliminate discrimination against two-earner families.⁵

Spending Reform

The 1975 Budget shows very little change in spending priorities. Major outlay changes are shown in Table 7.

The largest increase occurs in the income security programs, reflecting inflation, expanded benefit coverage, and the increase that normally accompanies a rise in the level of unemployment. Most of the additions are required by law and thus beyond the Administration’s control.

Other uncontrollable spending increases include medicare and medicaid, civilian pay raises, and interest costs. Costs of agriculture subsidies have declined because the market price of farm commodities has been so high that government support has not been necessary. The change in receipts from sale of oil leases is due to the timing of these sales rather than the rate or price of sales. This estimate is subject to large errors.

Table 7.—Major outlay changes between fiscal years 1974 and 1975¹

<table>
<thead>
<tr>
<th>[In billions of dollars]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 1974 total</td>
</tr>
<tr>
<td>Income security programs (social security, 8.7; adult welfare, 2.6, other welfare, −1, food stamps 0.9, school lunch 0.5, unemployment compensation 1.5, civil service retirement 1.3, all other 0.6)</td>
</tr>
<tr>
<td>Medicare and medicaid</td>
</tr>
<tr>
<td>Subsidized housing</td>
</tr>
<tr>
<td>Farm income stabilization</td>
</tr>
<tr>
<td>Civilian agency pay raise</td>
</tr>
<tr>
<td>Net interest</td>
</tr>
<tr>
<td>Education programs</td>
</tr>
<tr>
<td>Water pollution control</td>
</tr>
<tr>
<td>Offshore oil leases (a $1,000,000,000 decline in estimated receipts is budgeted as an outlay increase)</td>
</tr>
<tr>
<td>Energy research and development</td>
</tr>
<tr>
<td>Department of Defense—Military</td>
</tr>
<tr>
<td>All other</td>
</tr>
<tr>
<td>Total, fiscal 1975</td>
</tr>
</tbody>
</table>

¹ Detail may not add to total due to rounding error.


⁵ Senator Bentsen states: “I am very concerned about the impact recent payroll tax increases have had on low and moderate income workers. I believe a thorough reexamination of the methods by which we finance our social security system is in order.”
Four increases in civilian spending are planned. The $400 million increase in subsidized housing represents a real increase in the level of spending; this rise occurs after a housing moratorium that allowed the level of government housing commitments to fall drastically. The increase in educational programs is concentrated in the proposed authorization for consolidated education grants. In the aggregate, this proposed legislation would offset the declines in special programs for elementary and secondary education. However, most of the funds being consolidated are already obligated so that in the near term there would probably be little change in spending patterns. There is also an increase in funding for higher education, principally for basic opportunity grants. The addition to water pollution control funds is the result of an Administration decision to impound less. Congress has approved contract authority for $7 billion in fiscal year 1975 and the Administration has decided to withhold $3 billion. This compares to $6 billion withheld from the fiscal year 1974 contract authorization. Energy research and development outlays are dispersed among various agencies with the largest increase being devoted to the defense-related research conducted by the Atomic Energy Commission. Military expenditures are discussed in Chapter IX.

Thus, the Administration has taken few new initiatives to solve our country's problems. Problems which we believe deserve special attention by Congress this year are discussed below.

Welfare Reform.—Both the Administration and Congress have agreed that the present welfare system is woefully inadequate and unfair. In examining this system we have found enormous variations among different States and localities in benefit levels. One-parent families with children are favored over childless households. In some cases people can get little or no aid, but in others they can get more welfare benefits than they could earn working. Reductions in benefits as a recipient's earnings rise provide a disincentive to work at all. These problems and others must be solved in any comprehensive welfare reform.

Existing Federal welfare programs should be brought together under a single administrative agency. To simplify administration and to allow recipients to make the most efficient use of their assistance, most current income maintenance programs should be converted or integrated into a cash assistance benefit program not tied to a specific use.

Every needy citizen should be treated equally regardless of location, employment, or family status. Although support should be adequate to maintain a decent standard of living, it should protect work incentives.

Transportation.—The energy shortage and environmental considerations have focused increased attention upon public transportation. The scarcity of energy seems to have precipitated an increase in transit patronage of 1.4 percent in 1973, the first rise since 1960. Because ground transportation uses 45 percent of the total oil-produced energy
and public transit uses energy more efficiently than the auto (at present occupancy rates), increased use of mass transit offers the potential for energy savings. In addition, improving public transportation aids low income individuals, as the poor use public transportation to a greater extent than the wealthy.

While an increase in funding for public transportation is absolutely essential, two constraints must be considered. First, careful attention must be given to the ability of the transportation industry to produce the additional capital equipment demanded. Second, sufficient information must be made available to direct expenditures into the most productive services and systems. It is important that Congress carefully consider both of these constraints in evaluating the cost-effectiveness of various proposals for improving public transportation service. Witnesses have suggested that the best short-term strategy for improving public transportation is to expand express bus services.

Congress should provide expenditures for public transportation improvements subject to productive capacity and information constraints. Initial priority should be given to improving bus service, but flexibility should be allowed so solutions appropriate to different local problems can be developed.\(^6\)

Energy considerations have also stimulated interest in freight railroads. A recent DOT study recommended that more than 15,000 miles of track be abandoned. However, more than profit and loss considerations are relevant. Plant and community disruptions, the effect on previous investments, and congestion, pollution and maintenance costs related to shifting the mode of transportation must also be considered. While it is important to have an efficient and solvent rail system, such a system should not be achieved at any cost.

Congress should insist that track abandonment decisions include broader considerations in addition to pure profit and loss factors.

Housing.—In the past year the number of housing units under construction has declined sharply—from 2.2 million units in January to 1.4 in December 1973. At the same time a combination of high interest rates, severe inflation, and a moratorium on government subsidized housing starts has caused a shift towards high-priced housing units. The availability of new housing to low income families has therefore dropped.

The Administration has proposed an expanded program of leased units for public housing to alleviate this problem. But their estimate that 145,000 units would be started in fiscal year 1975 is highly optimistic. While Congress considers the Administration's housing proposals, immediate action is necessary to aid low income families.

\(^6\) Senator Bentsen states: "As chairman of the Public Works' subcommittee on Transportation, I would like to add our findings that there is an urgent need for both capital and operating funds for public transit. The priority of the cities lies not only with expanding all modes of transit service, but also in providing cleaner, quieter, and more rapid service which is more attractive to present users and potential users."
The Administration currently has available unused contract authority under Section 235 which could provide immediate construction subsidies for several hundred thousand low-income houses. Although this program has been criticized in the past, most of the problems lie in poor administration rather than poor program design. With competent administration, this program could fill part of the gap between the current inadequate program and new proposals.

While Congress is considering the Administration’s proposals, immediate action is necessary to provide housing for low-income families. Under existing budget authority, housing subsidies should be increased to provide housing for 300,000 families.

_Federal Fuel Resources._—Receipts from the sale of government-owned natural resources (entered in the budget as negative expenditures) have expanded greatly in recent years. In 1974 receipts from oil lease sales are estimated at $6.7 billion and the 1975 Budget projects $5.7 billion. The Administration’s recent proposal to sell much larger quantities of these government-owned resources in the future will undoubtedly cause receipts from these sales to grow. In addition to oil, the Federal Government has vast holdings of coal, oil shale, and potential geothermal energy sources.

If the Federal Government and the U.S. taxpayer are to receive a fair return on these publicly-owned resources, we must develop a better system of selling them. The current system of bonus bidding used to sell off-shore oil and shale oil leases is unsatisfactory. This sales system requires enormous amounts of capital for initial payments and thus prevents all but the largest corporations from participating. Royalty payments are low, so that if the lease proves to be undervalued, the public suffers a long-term loss. Conversely if the lease is over-valued, the purchaser incurs a severe loss. Accelerating sales under the current arrangement risks a contest among those who can raise the most money the fastest rather than among those who can best develop our natural resources.

The public should be compensated for the sale of fuel resources out of production as it occurs. Smaller companies could then participate in developing these resources, since the necessity for a large initial cash payment would be avoided.

In addition to a new sales arrangement, the time allowed for exploration and development should be shortened. When natural resources are purchased from the public they should be developed promptly to meet the public’s needs.

Before the Government begins to accelerate the sale of publicly owned fuel resources, a system of compensating the public out of production as it occurs should be instituted. Purchasers of these resources should develop them promptly.
Civilian Program Reductions

Congress should examine all spending to determine whether the funds could be more productive in alternative uses. The following expenditures deserve special scrutiny: highways, water pollution control, impacted school aid, and law enforcement grants.

If expenditures on the above programs were reduced, they could free over $5 billion for other uses.

Now that shortages and high gasoline prices are likely to reduce the use of highways, it would be sensible to curtail Federal outlays for the interstate highway system. Certainly the almost $5 billion budgeted for highway improvement in fiscal 1975 is excessive.

Water pollution control expenditures should perhaps be slowed down. Although the 1972 Water Pollution Control Act required comprehensive planning for water pollution control, such plans have not been completed. The program would benefit from prior completion of at least the broad outlines of these plans.

Impacted school aid was established during World War II to aid school districts that unexpectedly acquired Federal installations, such as military bases. World War II ended 28 years ago. Federal employment has stabilized and existing military bases have been fully assimilated into local economies. There is little reason to continue a World War II emergency measure.

Law enforcement grants to State and local governments have grown rapidly in the past 5 years from $28 million in fiscal 1969 to an estimated $744 million in fiscal 1975. Considering the rapid growth in the program and the large percentage of general revenue sharing funds devoted to public safety, this level of funding is not needed at this time. Slower expansion could result in more efficient use of the funds.

Senator Humphrey states: "While some civilian programs may have deficiencies, the regular appropriations process provides the best forum for debate and correction."
Retail food prices in 1973 rose at the most rapid rate in over a quarter of a century. The rise began in November 1972 and continued without interruption until it reached a peak in August 1973, 23 percent higher than ten months earlier. As of January 1974 these prices were still increasing at a seasonally adjusted annual rate of about 22 percent. At the farm level, prices jumped even more—about 34 percent during 1973.

The record increases in retail and farm food prices during 1973 illustrate the high degree of instability that often characterize food markets. In the short run the supply and demand for food are relatively insensitive to price changes. Because of the time required for production, increased supplies will not be forthcoming when prices rise rapidly. On the other hand, because consumption is unavoidable, rapidly rising prices will not usually lead to a significant decline in the quantity demanded. As a result, any significant fluctuation in food supply or demand will lead to extreme shortrun price changes. Such fluctuations lie behind the current food price spiral.

Extraordinary foreign demand, including the Russian wheat deal, along with the 1972 decline in food production, reduced our grain and soybean stocks and initiated huge price increases in early 1973. The Administration said these price gains were only temporary and would ease later in 1973 as supplies rose. Although farmers responded to high prices by producing record crops of corn, wheat, and soybeans, extremely high levels of export demand continued to hold prices for these commodities at record levels. Wheat prices in January 1974, for example, remained at $5.29 per bushel, up 122 percent over the January 1973 price of $2.38 per bushel. Record grain prices, as well as the ill-advised price ceilings set on meat in the spring of 1973, brought a decline in meat supplies for the year: cattle slaughter declined 6 percent, hog slaughter was down 9 percent, and broiler production slipped 2 percent.

As was the case in 1973, the Administration has made optimistic pronouncements about the course of food prices this year. In testimony before the Committee, Agriculture Secretary Earl Butz said:

Retail food prices would level off after midyear and perhaps decline slightly toward the end of the year. The average for all of 1974 may be about 12 percent above 1973, less than the 14 1/2 percent increase between 1972 and 1973.

Secretary Butz based this limited improvement in the food price outlook primarily on record levels of grain output this year. He projected a 15-percent increase in feed grain production and a 20-percent increase in wheat production.

While we believe that high levels of grain production are likely to occur in 1974, which may relieve some of the pressure on prices, there
are several other factors that could force new increases. First, grain output may not reach the projected record high levels because of weather difficulties and shortages of certain inputs, such as fertilizer. In addition, the supplies of certain other farm commodities, such as soybeans, meat and milk are expected to decline or show limited growth in 1974. Second, reduced stocks of major farm and processed food commodities, following two years in which total use exceeded production, will have to be replenished. Third, rising wage rates, and higher material and transportation costs due to the energy crisis, will add to expenses. Fourth, retail food prices may show some price bulge as price controls on food are completely eliminated.

Perhaps even more important than any of these factors in determining 1974 food prices, however, is the current, continued high level of export demand. While U.S. carryover stocks for wheat and feed grains are now at their lowest level since 1947, export demand for these grains continues at record levels. The wheat situation is especially delicate, with carryover stocks at extremely low levels.

A major controversy exists over the validity of official carryover stock figures and the extent of new wheat purchases. Although the Department of Agriculture officially estimates wheat carryover stocks at 178 million bushels, the Department's own export sales reporting system indicates outstanding export orders—if these orders are filled—sufficiently large to reduce wheat carryover stocks to about 50 million bushels. If these estimates of lower carryover stocks prove to be accurate, and new wheat export sales continue as they have in recent weeks, wheat prices could rise considerably higher.

In view of all these upward pressures, the Administration's forecast that 1974 food prices will rise an average of 12 percent over 1973, and "perhaps decline slightly toward the end of the year," does not appear realistic. From the presently available evidence it seems more likely that the average annual increase in retail food prices will be no less in 1974 than it was in 1973.

The 1972-74 record of extremely high food prices reflects several major deficiencies in the Administration's agriculture and food policies. While the Economic Report discusses some of these deficiencies, no specific new recommendations are forthcoming to correct the situation. Administration food policy continues to be characterized by the notion that food markets operate best when there is no government involvement. We endorse the shift away from restrictions on food output, but in several areas new government initiatives should be developed in partnership with the private sector.

Congress should develop a national food policy that systematically takes into account the diverse elements of this critical sector of our economy. The first step toward an integrated food policy is to develop improved information on both domestic production and foreign demand. In an independent appraisal of the Department's information and forecasting system in 1973, Professor Karl Fox of Iowa State University came to the following conclusion:

My impression is that our economic intelligence system generally is operating far below the level permitted by the state of the arts and far below the level needed if we are to show some degree of leadership in this field. * * * The eco-
nomic intelligence function must be given increased salience in the organizational structure of the U.S. Department of Agriculture and in the attention and concern of the Secretary of Agriculture.¹

The Administration recognizes these deficiencies and has taken a number of steps to improve the quality of current economic intelligence. But there continue to be serious deficiencies in the quality of information on export demand. Section 812 of the Agriculture and Consumer Protection Act of 1973 called for an export sales reporting system providing up-to-date information on the level of foreign export demand. As it now stands, the report’s data and analysis are inadequate.

The Department of Agriculture should improve its information system to provide adequate data on domestic production, utilization, and export demand. The USDA “Outstanding Export Sales Report” should (a) give full information on both actual and outstanding exports; (b) require exporters to designate price and destination in contracts; and (c) provide an analytical presentation of the significance of export sales data.

Beyond improving information on export demand, it is necessary to develop improved techniques for managing food exports. Two complementary approaches to this problem have merit. First the United States should seek multiyear sales contracts for key food commodities so that commitments will be known further into the future. This knowledge will permit improved domestic production planning and thereby increase price stability.

Second, an improved system for managing export commodities in critically short supply should be established. We do not want the United States forced into repeating the disruptive soybean embargo of June 1973. To avoid repetition the Secretary of Agriculture should be given authority to license exports of agricultural commodities in critically short supply, and to require prior approval of such exports if necessary. These actions would allow the Department of Agriculture to gain tighter control over critical export situations without terminating trade.

The United States should attempt to negotiate food export sales for key commodities on a multi-year basis.

In addition, Congress should pass legislation establishing a system for managing exports of critical food and feedstuffs when projected market supplies are inadequate to meet domestic needs without drastically increasing prices. The Secretary of Agriculture should be authorized to (a) set up an export licensing system for agricultural commodities determined to be in critically short

supply; and (b) require prior approval of such exports when necessary. If allocation of scarce exports is necessary, the highest priority should be given to countries needing food aid and the next priority to regular export customers.

In addition to improving export demand management, and fundamentally far more important, it is necessary to increase farm and non-farm productivity. Because we are approaching full utilization of land available, for grain production, productivity increases are especially critical. Yet crop production per acre showed a slight decline between 1972 and 1973. Livestock production per man-hour showed a sharp decline, falling 8 percent between 1972 and 1973. In addition, low rates of productivity have for years plagued much of the non-farm food sector of the economy.

Of special concern to the Committee has been the tendency for declines in farm prices not to be passed on to consumers in lower retail food prices. In the last five months of 1973 farm prices fell 11 percent. Although this brought some decrease in the rate of acceleration in retail food inflation, these prices still rose over 2 percent. Such discrepancies in price behavior between the farm and non-farm sectors of the food economy penalize both the farmer and the consumer. The failure of retail food prices to fall also reflects either a lack of competition or inefficiency in the processing and distribution sectors of the food industry.

The Department of Agriculture should undertake a major review of what can be done to increase both farm and non-farm output and productivity. This effort should include an analysis of existing target price levels to determine whether they constitute a reasonable price floor in view of rising costs for agricultural inputs. Both Congress and the Administration should examine existing funding for research and development in food production to determine if it is allocated to the most essential areas. The upward bias in retail food prices should be analyzed to determine ways to improve competition and productivity in non-farm food marketing and distribution.

Finally, unusually low grain stockpiles mean that the U.S. and the world are at present extremely vulnerable to poor harvests. If unexpected bad weather occurred in any key grain producing area, a genuine world food crisis would ensue. On the other hand, if future grain production should be exceptionally high in 1974, and continue growing, U.S. farm prices could tumble to uneconomically low levels. Given the normal uncertainty of grain supplies, and the high volatility of food prices, a major grain reserve program is needed to stabilize sup-

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2 Senator Bentsen states: "At a time when demand for food and fiber has been increasing dramatically, we do not have adequate emphasis on agricultural research which has paid enormous dividends in the past. There is strong evidence that if we can increase our production technology, our farmers will respond quickly."
plies and prices in the future. Such a grain reserve program would operate as an agricultural balancing wheel, acquiring commodities in periods of surplus and low prices, and disposing of stocks in periods of short supply and rising prices.

A national food reserve system should be established to counterbalance disruptive supply and demand fluctuations. Such a reserve program should be coordinated with the other major food producing and importing nations to share equitably the burden of assuring supplies to regular customers and to countries unable to pay commercial prices.

The above recommendations constitute a food policy that is designed to balance the conflicting demands of providing food supplies for both the United States and the world. It is important to continue our position as a major world food supplier. But American consumers should not be made to pay exhorbitant food prices because of a doctrinaire commitment to maximize food exports. The first consideration of a sound national policy should be to provide food to American consumers at reasonable prices.
Chapter IX. DEFENSE AND NATIONAL SECURITY

The New Defense Budget Request

The fiscal 1975 request for defense spending represents a significant increase over the fiscal 1974 request, despite assertions to the contrary by Administration spokesmen. The trend is upwards in terms of both budget authority—the amount which Congress is asked to approve—and actual outlays.

Outlays for National Defense (as defined in the budget document) will rise from $76 billion in fiscal 1973 to an estimated $80.6 billion in 1974 and $87.7 billion in 1975. This reverses the downward trend that began following the 1969 Vietnam war peak of $81.2 billion. Table 8 shows National Defense outlays in current dollars from 1969 to 1975.

Table 8.—National defense outlays—Fiscal years

<table>
<thead>
<tr>
<th>Year</th>
<th>Outlays (in billions of current dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>81.2</td>
</tr>
<tr>
<td>1970</td>
<td>80.3</td>
</tr>
<tr>
<td>1971</td>
<td>77.7</td>
</tr>
<tr>
<td>1972</td>
<td>76.0</td>
</tr>
<tr>
<td>1973</td>
<td>80.6</td>
</tr>
<tr>
<td>1974 (estimated)</td>
<td>80.6</td>
</tr>
<tr>
<td>1975 (estimated)</td>
<td>87.7</td>
</tr>
</tbody>
</table>

1 Functional category—OMB definition.

The upward trend can also be seen in the total obligational authority (TOA) requested for the Department of Defense. The budget shows Fiscal 1975 TOA of $92.6 billion compared to $87.1 billion in 1974. The Defense Department states that $5.5 billion difference is fully required to cover pay and price increases. According to the Pentagon, TOA in constant prices for 1974 and 1975 are approximately the same.

The conclusion that TOA for 1975 is no larger than 1974 is based on a highly questionable budgetary manipulation. The 1975 budget was accompanied by a supplemental request for the 1974 defense budget totaling $6.2 billion. Most of the supplemental is for pay and price increases that are attributable to the current fiscal year. But about $2 billion of the supplemental is for new weapons. The labeling of the request for new weapons as a supplemental for fiscal 1974 is dubious.

The supplemental request for new weapons was submitted to Congress in February along with the annual budget for fiscal 1975, after more than half of the current fiscal year had elapsed. There appears to be no emergency compelling the request, and hearings for an authorization will have to be conducted by the Armed Services Committees before funds can be appropriated. Normally, supplemental requests are reserved for emergencies or cases in which costs of approved programs have been misestimated. This request does not appear to meet the criteria for supplements set out in OMB Circular No. A-11.
The budgetary effect of calling the request for new weapons a fiscal 1974 supplemental is to increase the 1974 budget by more than $2 billion and to reduce the 1975 budget by the same amount. If the request is considered part of the new budget, where it appears to belong, the 1975 TOA would total about $94.7 billion compared to $84.8 billion for 1974, in current dollars. This amounts to an increase in defense funds requested of approximately 11.7 percent. While the gap between the 1974 and 1975 requests is significantly less in constant dollars, the rate of increase in defense funds exceeds the rate of inflation. Using the Defense Department's own estimates of the probable rate of price increase, we calculate that the TOA for fiscal 1975 is more than $4 billion higher in real terms than TOA for 1974.

The increase in real defense resources requested in 1975 budget can be more clearly understood from an examination of baseline defense forces. Baseline defense forces are those required to meet continuing peacetime requirements. As described in tables prepared by the Department of Defense, baseline expenditures exclude those for the war in Southeast Asia and military retirement. It is important to determine how the underlying structure of peacetime military forces is changing from year to year and whether baseline costs are going up or down.

According to the Department of Defense, TOA for baseline forces was $80.3 billion in fiscal 1974 and $84.7 billion in fiscal 1975. In constant dollars, the 1974 baseline exceeds the 1975 figure by about $1 billion.

The Defense Department's figures biases the comparison in two ways. First, the $2 billion supplemental for new weapons, discussed above, is included in the 1974 baseline and excluded from the 1975 baseline. Second, the Department of Defense has also included in the 1974 baseline the $2.2 billion appropriated last year for emergency aid to Israel.

The emergency aid to Israel is properly included in the overall total for defense in 1974. But it should not be considered a part of the 1974 baseline. The emergency aid program provided weapons and supplies to Israel during the Middle East war. It was a one-time military assistance effort and should no more be thought of as a part of our own baseline than is the amount we have spent in Southeast Asia. Inclusion of the emergency aid program for Israel in the 1974 baseline inflates its size and makes the 1975 baseline seem comparatively smaller.

A baseline comparison of fiscal 1974 and 1975, adjusting the figures to show the $2 billion supplemental request for new weapons as a 1975 budget item, and dropping the emergency aid to Israel out of the baseline, demonstrates that costs are rising sharply. Baseline costs were about $75.8 billion in 1974 and are $86.8 billion in 1975, an increase of $11 billion in current dollars. In constant dollars, again using the Defense Department's own estimate of price increases, the proposed adjusted baseline increases by about $6 billion, a raise in real defense resources of nearly 8 percent, assuming the Defense Department's figures for inflation are correct.
Defense spending ought not to be rising. The improved relations with the Soviet Union and China have reduced tensions between those two countries and ourselves. The withdrawal of U.S. forces from the the war in Vietnam has sharply curtailed expenditures for that costly adventure. The strategic Arms Limitation Treaty should result in a slowing down of the nuclear arms race.

The United States is fully capable of maintaining a military establishment second to none in the world without further increasing the already extremely high defense budget. The present baseline defense force structure was described by the Administration last year as sufficient to meet our military requirements. The real costs of our forces should not be increased. A strong case can be made for reducing the size of our defense forces, rather than for increasing them as is proposed in this year's budget.

The Fiscal 1975 budget for baseline defense forces should be no higher, in real terms, than the amount approved by Congress in fiscal 1974. This level of expenditure would provide the U.S. with resources needed to maintain the strongest military force in the world.¹

Defense and the Economy

The defense budget is apparently being used in part to provide fiscal stimulus to the economy. In December the Chairman of the Council of Economic Advisers appeared before the Subcommittee on International Economics. In response to a question about what the Administration would do to reduce unemployment in 1974 due to the energy shortage, the Chairman of the Council replied: “We do have a number of areas of the budget where expenditures need to be pushed forward on their own account, and where there would be a particularly timely occasion to do it if we were to be faced with a fairly significant unemployment problem. One of these is defense.”²

Recently, the Secretary of Defense has conceded that there is an element of economic stimulus in the defense budget. Although he maintains that all of the defense budget can be justified on the grounds of military requirements, he testified that a portion of the budget would not have been submitted to Congress if it were not for the downturn in the economy. The amount in the defense request intended for fiscal stimulus has been estimated at from $1 billion to $4 billion.

The economy should not be propped up through military spending. The defense budget should not be viewed as a public employment program or as a way to bail out certain industries. It would be far better to face up to the slumping domestic economy directly and initiate programs that will create far more jobs for a given dollar outlay than will additional defense expenditures.

¹ Senator Bentsen states: “While budget savings in overall defense spending can be made, I do not agree with blanket cutbacks. Proposed reductions should be leveled at specific items.”
Defense budgets should provide only those funds necessitated by military requirements, regardless of the condition of the economy.

The Defense Budget should not be used to stimulate the economy.

Defense spending tends to be inflationary. Defense goods and services cannot be consumed by the public, and to the extent that resources are employed by the military, they are unavailable for civilian purposes. The removal of goods and services from the civilian economy may create or contribute to shortages. Defense programs inject expenditures into the economy but they do not produce goods or services to satisfy consumer needs. Arms are not sold to the public.

Furthermore, to the extent that increased defense spending does serve to increase income and employment, it may also serve to increase the danger of future dislocation and recession. The defense build-up of 1965-68 added to employment as well as inflation, and it also planted the seed of the 1969-71 recession. Cuts in defense spending in those years and the failure to offset those cuts with appropriate stimulative measures elsewhere in the economy helped produce an 18-month period in which the unemployment rate hovered around 6 percent and reached far higher rates in areas of heavy dependence on defense production.

By 1973 the economy had succeeded in adjusting to a production mix which was somewhat less defense-dependent. It would be a mistake to reverse that trend at this point. If defense spending is used as a temporary economic prop, it could mean recession later on. If it is used as a permanent prop, it means a permanent commitment to wasteful, sterile, and dangerous excess of investment in superfluous hardware and personnel.

Little quantitative data has been developed to clarify these issues. Economists have conducted few studies inquiring into the consequences on the domestic economy of defense spending or measuring the extent to which defense spending is inflationary and responsible for shortages. Private witnesses testified that this year's defense proposal would not mitigate inflationary pressures and might well add to them, and further, that increasing military expenditures was not the way to obtain the largest increase of employment for a $1 billion increase in government expenditures.

Yet the government's foremost economic experts seem to approve of rising defense budgets at the same time that they discourage studies of the economic consequences of defense spending. They admit to knowing little about these consequences. The Chairman of the Council of Economic Advisers told the Committee that no one on the Council staff is assigned this responsibility. He said in his testimony: "We kept finding there was nothing in that box so it didn't seem desirable to keep somebody constantly looking in it." Nevertheless, he believes that the defense budget is based on "the minimum requirement of the defense establishment."

In a similar vein, the Secretary of the Treasury told the Committee while "not being an expert in this area at all, but nevertheless seeing some of the foreign affairs side, * * * I am for spending what we
need to spend on national defense, and I wonder if we are spending enough. ** ** **

There appears to be little, if any, expertise in defense economics anywhere in the government. The Department of Defense is understandably more concerned with meeting military requirements than with the consequences of defense spending on the economy. The responsibility for studying these relationships is clearly one for the civilian side of government.

The Council of Economic Advisers would be a logical place to develop such a capability. We have urged the Council to assume this role in the past reports. The Council is presently unwilling to do so. Other possibilities include creating the capacity in some other agency, establishing an independent executive board, or authorizing a legislative office.

The General Accounting Office should study the feasibility of developing a civilian capability for analyzing the economic consequences of defense spending. The study should include recommendations as to where such a capability might be located, how it should be organized, and other recommendations deemed appropriate by the Comptroller General. The report of the inquiry should be transmitted to this Committee by the end of the current calendar year.

Waste and Inefficiency

The apparent intention to use a portion of the defense budget for economic stimulation is likely to encourage unnecessary defense spending and, consequently, waste. Waste and mismanagement is widespread, but there is little indication that serious steps are being taken to cope with these problems. The costs of military training and education alone amount to $11 billion annually, or 25 percent of the military manpower dollar. These outlays are excessive in view of the known waste in this area. For example, buried in training expenditures are the salaries of the pilots who operate more than 60 helicopters in the Washington, D.C., area to ferry Air Force officers between their homes and offices.

Reductions can and should be made in the costs of domestic and foreign bases and in the ratio of support to combat forces. Headquarters staffs are notoriously overpopulated. The practice of promoting and retaining excessive numbers of officers relative to enlisted personnel—known as grade creep—appears to be continuing and may be growing worse.

Disclosures during 1973 provided disturbing new examples of unnecessary defense spending. More than 1,700 enlisted personnel have been trained and used as servants to high ranking officers and their wives. Nearly 200 military aircraft are known to have been placed at the personal disposition of individual officers and used for unofficial, as well as official, business. These officers have been provided with private airplanes from the military inventory at taxpayers’ expense. In addition, aircraft of the Military Airlift Command have been
regularly employed for domestic and foreign unofficial travel, including vacations overseas for military personnel and their dependents. In 1972, the most recent year for which data is available, 336,000 passengers were flown overseas on military aircraft on unofficial business.

Procurement of major weapon systems continues to be characterized by cost overruns, disappointing technical performance and delayed deliveries. Defense officials assert that they taking corrective measures with such new policies as “fly-before-you-buy”, “design-to-cost”, “high-low cost forces,” and “total package procurement.” Few, if any, successful results can be reported so far. The new policies may well turn out to be only “buzz words,” slogans that suggest improvements to be tried for awhile, found wanting, and abandoned.

There can be no real progress if there are no incentives to cut costs. One of the major problems in procurement is that it is conducted largely on the basis of cost reimbursement, in the absence of competition, and without a firm resolve by the highest government officials to reject inefficient practices. In addition, excessive budgets lead to a search for ways to spend funds. This practice often results in inefficiency.

The new budget proposes an increase in Army divisions from 13 to 13½ and other additions to Army ground forces. According to the Secretary of Defense, these increases will be accomplished by making reductions in headquarters and support establishments. Existing manpower authorizations will not be changed.

In essence, the proposal calls for shifting costs out of support into combat functions. It is a recognition that support costs are excessive and can be reduced. It is proof that fat can be cut without cutting into muscle. We welcome this awareness and encourage the Defense Department to seek out other unnecessary support costs.

But if the overall force structure is not enlarged, the elimination of unnecessary costs can be turned into real savings and reductions in the defense budget.

Waste and mismanagement should be eliminated throughout the military establishment. The savings that result should be used to reduce military spending rather than being plowed back into the defense budget. Such savings will contribute to the fight against inflation and increase our military strength.

Defense Information

Several years ago, in response to a recommendation by this Committee, the Department of Commerce began publishing a monthly report called Defense Indicators. It was hoped that this series would provide the kind of information about defense that Economic Indicators provides about the economy as a whole. While Defense Indi-
contains valuable data, much additional information should be
included and presented in a way which will enable the public and
Members of Congress to adequately understand what is happening
within the defense sector.

Defense Indicators contains information about such things as manu-
facturers' new orders for defense products, average weekly overtime,
inventories, unfilled orders, shipments to the government, Department
of Defense gross obligations incurred, numbers of military and civilian
employees, and defense-related balance-of-payments components.
All of this is helpful information to have, but it is incomplete.
The facts needed to make the Defense Indicators a more comprehen-
sive and useful document include the following: military and civilian
personnel numbers and compensation broken down by officers, enlisted
men and GS ratings, numbers and locations of domestic and foreign
military bases (including personnel assigned to each), military for-
eign aid broken down by country, support-combat ratios, energy con-
sumption, the costs of special actions, such as the war in Vietnam and
the Middle East war, major reprogramming of funds, the costs of indi-
vidual weapon systems with original, current and life cycle estimates,
wage rates in defense industries, defense profits, and the costs of na-
tional security functions outside the Department of Defense, such as
in the Atomic Energy Commission and the National Aeronautics and
Space Administration.
Some of this data is available in reports prepared by the Depart-
ment of Defense and presented at congressional hearings. However,
it is often hard to find, frequently out of date, and sometimes non-
existent. The items of information we have listed and other items need
to be collected in a single publication, updated on a monthly basis,
if possible, and presented in a clear and readable format.

Defense Indicators should be completely revised to pro-
vide Congress and the public meaningful and timely in-
formation about the level and trend of defense and
national security spending.

The National Security Budget

In previous years we have registered our objections to the narrow
definition of the defense function in the federal budget. National
defense presently includes spending for military activities, a portion
of military aid, the Atomic Energy program and other selected activ-
ities. This definition is deficient because it excludes large expenditures
for purposes that are clearly related to national security. Table 9
presents a “National Security Budget” which expands upon the official
definition.
TABLE 9.—1975 NATIONAL SECURITY BUDGET

<table>
<thead>
<tr>
<th></th>
<th>1973 outlays (actual)</th>
<th>1974 outlays (estimate)</th>
<th>1975 outlays (estimate)</th>
<th>1975 budget authority</th>
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</thead>
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<tr>
<td><strong>Defense, military assistance, and defense-related activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>DOD military^1^</td>
<td>73,297</td>
<td>78,400</td>
<td>84,600</td>
<td>90,974</td>
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<tr>
<td>Military assistance^2^</td>
<td>1,453</td>
<td>1,570</td>
<td>1,318</td>
<td>2,588</td>
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<tr>
<td>Emergency security assistance to Israel</td>
<td>691</td>
<td>671</td>
<td>671</td>
<td>671</td>
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<tr>
<td>Credit sales to Israel</td>
<td>123</td>
<td>439</td>
<td>648</td>
<td>290</td>
</tr>
<tr>
<td>Indochina postwar reconstruction</td>
<td>2,385</td>
<td>2,328</td>
<td>2,306</td>
<td>3,058</td>
</tr>
<tr>
<td>Space research and technology</td>
<td>3,111</td>
<td>3,177</td>
<td>3,272</td>
<td>3,245</td>
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<tr>
<td>U.S. Arms Control and Disarmament Agency</td>
<td>99</td>
<td>109</td>
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<td>109</td>
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<tr>
<td>Renegotiation Board</td>
<td>5</td>
<td>5</td>
<td>5</td>
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<tr>
<td>National Security Council</td>
<td>2</td>
<td>3</td>
<td>3</td>
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<tr>
<td>Stockpiles</td>
<td>17</td>
<td>22</td>
<td>16</td>
<td>16</td>
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<tr>
<td>Expansion of defense production</td>
<td>68</td>
<td>135</td>
<td>41</td>
<td>41</td>
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<td>Selective Service</td>
<td>79</td>
<td>68</td>
<td>47</td>
<td>47</td>
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<tr>
<td>Emergency preparedness</td>
<td>12</td>
<td>16</td>
<td>11</td>
<td>11</td>
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<tr>
<td>Deductions for offsetting receipts</td>
<td>-377</td>
<td>1,240</td>
<td>-969</td>
<td>-969</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>80,032</td>
<td>85,411</td>
<td>92,467</td>
<td>99,163</td>
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<tr>
<td><strong>Payments for past wars and defense programs:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Veterans benefits</td>
<td>12,013</td>
<td>13,285</td>
<td>13,612</td>
<td>14,080</td>
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<tr>
<td>Interest^3^</td>
<td>17,110</td>
<td>20,816</td>
<td>21,842</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>29,123</td>
<td>34,101</td>
<td>35,454</td>
<td>35,922</td>
</tr>
<tr>
<td><strong>Programs justified on grounds of national defense^4^</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ocean shipping^4^</td>
<td>343</td>
<td>377</td>
<td>427</td>
<td>422</td>
</tr>
<tr>
<td>Impacted area school aid^5^</td>
<td>436</td>
<td>410</td>
<td>362</td>
<td>255</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>779</td>
<td>787</td>
<td>789</td>
<td>677</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>109,934</td>
<td>120,299</td>
<td>128,710</td>
<td>135,762</td>
</tr>
</tbody>
</table>

^1 DOD military excludes DOD civil outlays which totaled (in millions) $1,200 in 1965; $1,300 in 1968; $1,300 in 1969; $1,200 in 1970; $1,400 in 1971; $1,500 in 1972; $1,703 in 1973; $1,521 (estimate) in 1974; $1,649 (estimate) in 1975; $1,531 (budget authority) in 1975.

^2 Includes military assistance program (MAP), supporting assistance, credit sales, and the part of the food for peace program that permits the use of foreign currencies for common defense purposes (section 104(c) of Public Law 840).

^3 Excluded are outlays for military assistance purposes funded through the Department of Defense. Total obligational authority for this program is shown in the budget as (in millions) $2,600 for 1972; $2,600 for 1973; $1,400 (estimate) for 1974; $2,200 (estimate) for 1975.

^4 Portions of programs, other than those listed, have been justified in the past as essential to national security, including the National Defense Highway System, the airport program, and others.

^5 Additional authorizing legislation required.

The Office of Management and Budget should present national defense in the budget document as the full cost of defense and national security. OMB and the General Accounting Office have begun to study this kind of presentation. We encourage both agencies to continue their efforts and look forward to progress in the near future.

The definition of National Defense in the budget should be enlarged to provide the public a full accounting of the costs of defense and national security.
I agree with the basic thrust of this report and for the most part I support the various proposals which it sets forth. However, there are a number of areas where the actions recommended are, in my view, less than adequate.

Chief among these are the recommendations aimed at the Federal Reserve Board. I wish to make it clear that I heartily endorse the proposals calling for an audit of the Federal Reserve, retiring Federal Reserve stock held by system member banks and funding Federal Reserve operations solely through Congressional appropriations.

However, additional steps must be taken if the Federal Reserve is to be truly responsive to the policies of both the Congress and the Administration.

Specifically, the Open Market Committee, which is comprised of both members of the board and presidents of district Federal Reserve Banks should be eliminated. Open Market operations—the actions taken to implement monetary policy—should be the sole responsibility of the Board itself. Furthermore, the terms of Board members should be reduced from 14 to 5 years and the term of chairman of the Board should be made co-terminus with that of the President. Federal Reserve stock, now held by member banks in the Federal Reserve System, should be retired. Moreover, the operation of the Federal Reserve System should be funded solely through Congressional appropriations rather than through the payment of interest on Federal obligations, as is now the case.

Finally, all but $10 billion of the $79 billion in Federal bonds held in the Federal Reserve portfolio should be retired. Federal Reserve spokesmen have admitted that no more than $10 billion in bonds is required to carry on open market operations. This means that $69 billion in Federal bonds held by the Federal Reserve and paid for by the Treasury, could be written off the books. The national debt could be reduced by that amount. Elimination of most of the paid up bonds in the portfolio would also mean eliminating the annual payment of most of the $4 billion in interest by the Treasury to the Federal Reserve on these bonds—money that the Federal Reserve is free to use without restriction or accountability to finance any and all activities it wishes to pursue. The Federal Reserve wrongfully claims ownership of this portfolio; the truth is that these bonds were acquired by the Fed as an agent of the Federal Government.

In this way the methods by which the Federal Reserve is able to maintain its independence—indeed never granted by the Federal Reserve Act itself—would finally be abolished and the agency, which was created by Congress, would properly be under the supervision of the Administration and Congress, which is to say under the supervision of duly-elected representatives of the people.

Nothing less than this course of action will ever assure that monetary policy implemented by the Federal Reserve is in agreement with the wishes of the Administration and Congress. Put another way, without these changes, we will continue to have an autonomous agency.
exerting control over the nation's economy without having to answer to anyone for its actions and more importantly, its disastrous mistakes. Those mistakes and their effect are exemplified in those pages of the report noting the roller-coaster pattern of the nation's money supply last year, the intolerable level of interest rates and the crushing effect of these conditions on housing, to say nothing of small business and State and local government financing.

In point of fact, these proposals constitute the only certain way of realizing the Committee's recommendations going to stabilization of the money supply and support of the residential mortgage market by the Federal Reserve.

The Committee's recommendation calling for a "government-controlled credit organization . . . to make credit available to consumer borrowers, small businesses, State and local governments, and to homebuyers" is a welcome one, so far as it goes. The trouble is it doesn't go far enough because nothing is really spelled out. The concept is within the scope of a National Development Bank which has been proposed by me and a great many other Members of Congress. Under my proposal, the National Development Bank would be capitalized by stock subscribed to by the Treasury. The Bank could hold debts totalling $20 billion. Loan funds would be obtained through the sale of Federally guaranteed Bank obligations to open market investors and when necessary to the Treasury. Loans at reasonable rates would be made available to borrowers for housing, for business and industrial development and to State and local governments to finance urgently needed public works and facilities when such borrowers are unable to obtain credit on reasonable terms from private sector lenders.

In essence, the existence of a National Development Bank provides a cushion of protection for priority area borrowers against the all too frequent periods of economic strangulation produced by a Federal Reserve which has been allowed to exist outside of the control of the Administration or Congress. It is my hope that the Committee will see fit to flesh out its broad recommendations in this area in the near future.

The fact that the report fails to address itself to the apparent endorsement of Hunt Commission recommendations in the President's Economic Report is also a source of disappointment. The Hunt Commission addressed itself to the need for and the way in which the structure of the nation's financial institutions should be altered. Unfortunately, the Commission's effort was focused more on protecting financial institutions against the blows of a gyrating economy rather on assuring the availability of credit on reasonable terms to homebuyers, consumer borrowers, small business and industry, State and local governments, and other priority area borrowers. Nevertheless, the shortcomings of the Hunt Commission and the Administration in no way diminish the need to study and to ultimately implement structural changes in our financial system to assure an equitable share of existing credit to priority areas of the economy regardless of economic conditions.

Creation of a National Development Bank would be a step in this direction, but by no means the only step that is needed. The staff of the House Banking and Currency Committee has proposed that major changes in the structure and regulation of financial institutions going
far beyond the Hunt Commission recommendations be considered in an effort to stabilize the economy and assure the availability of adequate credit on reasonable terms to all sectors of the economy.

Aside from recommendations concerning the reorganization of the Federal Reserve and the creation of a National Development Bank, touched on above, the staff proposed consideration be given to requiring major types of private financial institutions—privately controlled pension funds and insurance companies—as well as depository lending institutions to make investments in priority areas of the economy. Imposition of required but reasonable levels of investment in residential housing, in small business and industry and State and local government public works and facilities may be the only way to really assure that small priority borrowers get a fair piece of the credit action at all times.

Other proposals for consideration include consolidating the regulation of Federally insured and supervised depository lending institutions in order to eliminate the confusing, conflicting and self-defeating regulatory maze that now exists, establish a single Federal regulatory agency, and open the way for all depository lending institutions which wish to do so to move either partially or completely into the field of commercial banking.

In this way, regulation would be made consistent with the public interest and maximum competition to acquire deposits and make loans would be instilled in the financial industry.

It goes without saying that the energy crisis—the shortage of gasoline especially—constitutes one of the most serious domestic problems confronting the nation. This point should not be overlooked in any effort to revise the tax structure as it applies to oil companies.

Specifically, changes in the tax liability of oil companies should be designed, as far as equity permits, to encourage increased production and reduce a problem that reaches out to practically every aspect of the economy.

Small, independent oil companies, which have in fact begun to increase production, should not be discouraged in this pursuit in the name of requiring large international oil companies to pay their fair share of the total tax bill. Indeed, it should be recognized that unlike the oil giants, the small companies have confined their efforts to domestic production rather than ignoring the potential of our own reserves in favor of dependence on foreign oil resources. Moreover, the survival and prosperity of the small independent oil companies should be guarded so that they will continue, and hopefully expand, as a competitive market force.

I also feel that something more should be said about the report's recommendations concerning wage-price controls. I agree that Congress should authorize a permanent mechanism to administer a comprehensive set of wage-price policies. Whether the Administration should continue to have authority to control any or all wages-prices is another question. Authority to exercise such control was first granted the President in 1970. With the possible exception of the short-lived Phase I and II, he and his advisers have utterly failed to conduct an equitable wage-price control program. Prices, especially the price of food and fuel, and interest rates, have continuously spiralled upward. Rather than a stabilized economy, we are experiencing the most unstable of conditions which impose a crushing burden on the low and moderate income families of the Nation.
The virtually universal dissatisfaction over the Administration's failure to properly utilize authority granted under the Economic Stabilization Act has been graphically reflected in hearings which have just been completed by the House Banking and Currency Committee. Witnesses who testified and those who submitted statements for the record during hearings on extension of the Act were nearly unanimous in their opinion that the law should be allowed to expire. This attitude is reflected throughout the membership of the Committee. So much so in fact that in my opinion the Committee will not look favorably on extension of the authority beyond the expiration date of April 30, 1974.

With respect to the important question of fiscal control, it is noteworthy that in the last 46 years the two national political parties—Democrats and Republicans—have often been split or divided in power. Neither party is in control of a Congress unless it has the President and a majority of each House of the Congress. Consideration should be given to any method that is desirable and in the public interest to prevent a minority of either party from obstructing the will of the majority on vital legislation necessary to the general welfare of the people.

The attached table tells the story in a way that should provoke interest and challenge each party to improve on the situation.

### Political Party Control of Congress and White House, 71st Through 93d Conferences

<table>
<thead>
<tr>
<th>Congress</th>
<th>Senate</th>
<th>House of Representatives</th>
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<th>Party in control</th>
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1 Democrats organized House in 72d Congress.
2 Completed term of predecessor in office.

Note: Political party control of both Congress and White House—71st to 93d Congress:

<table>
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<th>Years</th>
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<th>Republican (2 Congresses)</th>
<th>Split (8 Congresses)</th>
<th>Total (23 Congresses)</th>
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</table>
This is the only table of its kind that I know of that has ever been prepared. It was prepared under my direction. I believe it is accurate. It is possible that it would be more interesting to have a table commencing back at the beginning of the First Congress instead of just for 46 years. Possibly it would provoke interest in taking steps toward improving the situation.

We have a representative government. The Members of Congress are supposed to have a dominant position in operating the government. But at the present time, no one can be sure that the Members of the House of Representatives and Senate who are elected by their constituents to come to Washington and attend sessions of Congress have the power and prestige that was contemplated under the Constitution.

For instance, in the Executive Branch of the Government there are 2,759,850 employees—practically all of them selected by the President or under his direction while he is the only one in this 2,759,850 employees who was elected by the people. The present budget contains $304-billion to be expended during the next fiscal year. Practically all of this money is spent under the direction of the President of the United States since it is allocated by Congress to the agencies that have charge of such expenditures and only a very small part of it is spent under the direction of the Legislative Branch. In fact, the President has clearly abused his power and violated the Constitution by transferring funds from one agency to another and for a purpose not intended by Congress in its legislation. The impoundment of funds by the President has also been a gross abuse of the President’s authority.

We must not overlook the fundamental Constitutional provisions that no public money shall be spent that is not appropriated by the Congress and that appropriations shall be made by Congress in the way and manner specified in the Constitution. If the President is going to be condoned in switching funds from one agency to another and from one agency to which the money was provided for a particular purpose, to some agency set up by the President alone, and spent by the latter agency, as is the case, the Congress should take a hard look at this conduct and make recommendations as to what can be done about it.

In the three branches of government composed of 2,759,850 employees in the Executive Branch, 33,968 in the Legislative Branch, and 8,951 in the Judicial Branch—aggregating 2,802,769—there is only one with decision-making power in the Executive Branch, 535 in the Legislative Branch and none in the Judicial Branch, that are elected by the people.
SUPPLEMENTARY VIEWS OF SENATOR PROXMIRE

While I support the report and the general views of the majority I wish to add my supplementary views because of a strong difference of opinion I have over the question of emphasis.

This country faces both inflation and a falling off of the economy at the same time, or what has now been termed "stagflation." I am chagrined that the testimony we received from both the Administration and outside expert economists was so lacking in prescriptions for how to deal with this admittedly contradictory and difficult double problem.

On the whole, however, both the Administration and the outside economists opted for more stimulation and more expansion rather than dealing forthrightly with the overwhelming problem of inflation.

The Administration has done this, not by its rhetoric, but by its actions. At a time of rampaging inflation it has proposed the biggest peace-time budget increase in the history of the country.

The experts have chosen to stress expansion and economic stimulation openly and directly, both in their rhetoric and in their prescription. They are so fearful of a recession—indeed contrary to the evidence as of now, many of them state that we are in a recession—that they essentially close their eyes to what I consider the prime, central and certain economic threat, namely continued galloping inflation.

My view is that one should act on the basis of objective, existing facts rather than on predictions. Economists have been notoriously wrong when they predict events rather than act on objective evidence.

That leads to my difference of emphasis. Inflation is here. It is rampaging. It is galloping. It is not going away.

Recession is not yet here. It may come. But as of now we have not had two quarters in which the growth rate has declined, which is the modern definition of recession. Until there is further evidence we should emphasize the problem we actually face rather than the problem we may face and which we should be prepared to face.

Here's why inflation is the major economic threat while recession, though likely, is not yet certain.

1. Wholesale prices continue to rise and to rise at an enormous rate. These will be translated into future retail prices. Therefore, the rate of rise in consumer prices will continue or grow.

2. The end of controls will also produce an additional rise in prices. We must therefore face a price bubble on top of the price bubble—one associated with future higher retail or consumer prices and another associated with the end of controls.

3. Labor will not stand still and cannot be expected to stand still for another year in which working men and women take it on the chin. Average weekly wages have increased at an annual rate of only 4.5 percent in the 13 months from January 1, 1973 to January 30, 1974. Be-
cause of roaring prices, their real purchasing power has gone down by
about the same overall rate.

Mr. Meany is calling for a 12 percent average increase in labor con-
tacts for 1974 to make up for price increases and a modest productiv-
ity factor.

Thus the results of new wage negotiations, even if somewhat below
12 percent on the average, will mean a continued inflation and a real
prospect if not certainty of a future wage-price push.

(4) While the oil embargo may end, this can mean even higher
prices for fuel if the Administration continues in its stubborn stand
against rolling back the price of old domestic oil. An even greater
proportion of the total will not be composed of the outrageously high
priced imported oil.

(5) Official predictions are that food prices will go up by at least
12 percent this year. Our wheat and feed grain carryover is paper thin.
Unless everything works out perfectly, they may go even higher.
Unless there is a perfect combination of good weather at home, no
crop failure in Russia or South Asia, nor a failure of the Peruvian
fish catch, an abundance of fertilizer delivered to the farm, adequate
fuel for farm machinery and for drying crops, plus adequate and
timely transportation, even the 12 percent prediction will be a modest
one. And even with perfect factors, the increase in demand abroad and
the shift from carbohydrates to protein consumption in the world plus
the stickiness of middlemen’s prices will cause food prices to continue
to rise.

(6) Not only is the President’s budget increased by unprecedented
amounts, but the major increases are in the wrong places, namely
defense which feeds no hungry person, builds no needed housing, or
satisfies any economic shortage. It has essentially, a strong inflationary
bias.

For all these reasons, continued inflation is a sure thing while reces-
sion remains a possibility and a genuine threat.

Therefore, certain policies are needed now, subject to change if
conditions change.

Both monetary and fiscal policy should be restrictive or on the
restrictive side, under these circumstances. The report does not advoc-
ate that. Meantime, the budget should not only be cut but cut hard.
Resources should be moved out of defense and into housing, public
service jobs, and more generous unemployment compensation both in
terms of funds and length of time. This would stimulate those areas
where otherwise resources and manpower would lie idle.

We thus need a strong anti-inflation policy coupled with a sophisti-
cated attack on unemployment and shortages to benefit human well-
being. The latter would lessen the anti-inflationary effects of the re-
strictive policies while attacking the areas in short supply by putting
idle men to work on idle resources to meet our genuine needs.
SUPPLEMENTARY VIEWS OF SENATOR FULBRIGHT

I believe the Committee has correctly portrayed and analyzed the major economic problems facing the country, and I especially concur in the conclusion of the report that “as the Administration continues to flounder from crisis to crisis” in dealing with this situation, “Congress must assume leadership for the development of an effective policy * * *”

Shortages, inflation, and, in certain sectors, an economic downturn—three economic problems we have had to face at various times in our history—are now all present in various degrees. As a respected economist in my own State recently noted:

The nation and the world experienced many changes in 1973 and some of them were political and economic surprises that shattered many illusions of the future. Many economists have foreseen the present shortage of materials and sources of energy, but few had anticipated the acute nature of this shortage.

Inflation has continued at an unprecedented rate in the United States, despite attempts to control it. The consumer price index (1967–100) rose from 127.3 in December 1972 to 138.3 by December 1973. At the same time, the wholesale price index rose from 122.9 to 145.3. Inflation and the recessionary tendencies were exacerbated by the energy crisis, and I believe that the lifting of the embargo will be helpful in this regard. Nevertheless, the Congress can, and must, take effective action to alleviate the economic problems besetting this country. The Committee Report contains many proposals dealing with these problems. While I disagree strongly with some of them and prefer to reserve judgment on several others, I do support most of the general conclusions reached by the Committee and wish to comment on several recommendations contained in the Report which, in my opinion, are of particular importance.

I want to emphasize my agreement with the Committee position that wage and price controls should not be continued. It is obvious that the Administration’s Economic Stabilization Program, has been a dramatic failure. The system of wage and price controls in effect since 1971, has, on the whole, failed to check inflation and at the same time has caused severe dislocations in many sectors of the economy. Prices have outrun wages and the result has been an actual decline in real spendable income. As the report points out: “The effect of price increases on the cost of living has been dramatic, with a middle income family having to spend an extra $1,200 in 1973 just to maintain 1972 living standards.”

Economic controls, in my opinion, should only be imposed as a last resort. Freezes and phases are only temporary remedies and as applied by this Administration they have for the most part done more harm
than good. The Committee's statement that "the credibility of the Administration's control program has been severely damaged" is an understatement.

In my judgment, the most effective step that the Congress can take at this time to reduce inflation is to reduce the 1975 budget proposed by President Nixon, which would climb to over $304 billion this year—a jump of $58 billion since 1973. It was only in 1962 that the budget exceeded $100 billion for the first time and in 1971 that we crossed the $200 billion mark. I believe the President's 1975 budget is excessive and can and should be reduced by Congress.

The budget includes a major increase for military spending with the direct military budget at almost $88 billion. This proposed increase of almost $7 billion comes after the conclusion of our involvement in the war in Indochina, and is the first time in our history when the end of a war has been followed not by a reduction but an increase in spending. After the Korean War, overall federal spending dropped more than 10 percent. After World War II spending was down 60 percent.

The fiscal year 1975 Navy budget alone is $30 billion, which is as much as the combined totals for such economically important activities as agriculture, rural development, commerce (including area and regional development), transportation (including highways, railroads and mass transit), community development, housing and education.

As the report notes: "The defense budget is apparently being used to provide fiscal stimulus to the economy." I strongly agree with my Colleagues that the economy should "not be propped up" through such activities. I support the statement that "The United States is fully capable of maintaining a military establishment second to none in the world without further increasing the already extremely high defense budget."

Other areas where budget reductions can be made include foreign aid and space programs. It is interesting to note that the budget request for space programs ($3.3 billion) is more than twice the amount requested for direct energy research and development which is so badly needed to move toward a self-sufficiency in this area. Cuts in the military, foreign aid, and space programs could be combined with greater expenditures in areas such as energy research and development, which are more directly related to the well-being of our economy. At the same time such reduction would increase opportunities for the adoption of a personal tax reduction that would ease the burden on low and middle income taxpayers and also stimulate consumer demand.

The Committee has reached the general conclusion that in the short run an immediate stimulus to the economy should be provided through both a reduction in taxes and a public employment program.

Although I prefer to withhold judgment on the specific proposals outlined in the section on tax reform as this matter is now before another Committee on which I sit, I endorse the report's emphasis on the need to provide tax relief for low and middle income families. The Committee's suggestion that the Social Security tax rate be reduced as an interim step toward reform of the system of payroll taxes would appear to have considerable merit at this time and should be studied further.
With regard to the emergency public employment proposals, I would recommend that the Congress immediately review the present laws to insure that sufficient funds are available for public employment in the less populated areas where catastrophic results can occur from plant closings.

Some of our prominent economists insist that a large deficit is necessary to stimulate the economy. Despite his frequent statements to the contrary, the President has apparently accepted this position. One-fourth of the total national debt of $508 billion will have been accumulated in the last five years. The interest on the debt this year will be $29.1 billion, having nearly doubled since 1969. The huge deficits in recent years have, in my view, been major contributors to inflation and our economic difficulties.

I do not believe that the way to combat inflation is by massive increases in spending, particularly in the non-productive area of military, foreign aid, and space programs. There are more effective, more productive and more constructive ways of creating jobs and keeping the country moving economically. I am glad that the annual report recommendation of long-term changes in fiscal policy is reflective of this position.
SUPPLEMENTARY VIEWS OF REPRESENTATIVE MOORHEAD

The Joint Economic Committee Report offers an honest analysis of the economic outlook for the coming year and excellent policy suggestions to improve this outlook. Although the Report is most comprehensive in its discussion of the economy, there are two areas where I believe emphasis could be added.

Housing

First, I would like to further emphasize the importance of the housing industry to both the economy as a whole and to achieve income redistribution. The fact that housing starts slumped drastically through the year certainly effects the economy adversely. Of even greater concern to me is the lack of commitment I find to the housing problems of low and moderate income persons.

A recent study by the Joint Center for Urban Studies of M.I.T. and Harvard pointed out that in 1970 there were 13.1 million “housing poor” households. The study also noted that, “The nature of housing deprivation is shifting rapidly away from problems associated with structure itself and in the direction of problems associated with the cost of a unit relative to the ability of a household to pay.” This is supported by the fact that less than 6 percent of the new homes sold in the fourth quarter of 1973 were priced below $20,000. When I see that a household must have an annual income of $13,500 to buy and support a $25,000 house with a thirty year mortgage, I cannot help but feel we have a serious problem.

For this reason I would like to heartily endorse the recommendation in the Report which supports the construction of 300,000 homes with unused contract authority under Section 235. However, I would like to go beyond this recommendation to support the continuation of Section 235 as a permanent and not just an interim program.

A recent report pointed out that the continuation of this program was vital to the achievement of five very important national goals.

(1) Expansion of the supply of housing to keep housing prices down.

(2) Decentralization of poverty persons from the Central City.

(3) Creation of certain types of housing units (low and moderate income) which are not in existing inventories nor likely to be produced by the private market without subsidies.

(4) Stimulation of the construction industry.

(5) Provision of highly visible upgrading in deteriorating areas.
With more competent administration Section 235 could fill the gap between the tremendous need for low and moderate income housing and the supply of such housing. Without 235, it is quite possible that the problems noted in the Harvard-M.I.T. study will become even more serious.

State and Local Government

I would also like to point out that the economic problems of 1974 have a profound impact on the operation of state and local government. Inflation, for instance, seems to accentuate the gap between local government revenues and expenditures. Local government revenues tend to grow at approximately the same rate as the rate of inflation while the deflator for local government expenditures grows faster than the deflator for the entire economy. It has been estimated that a 5 percent inflation rate will cause local revenues to increase $6 billion but expenditures to increase $9 billion.

Recession also has a profound effect on state and local government operations, cutting into revenue receipts and increasing unemployment related expenditures. It has been estimated that a one percent rise in unemployment would cause local and state revenues to fall by $3 to $4 billion a year. Revenue shortfalls will be particularly sharp this year because receipts from the gasoline excise tax will also decline significantly.

This Committee has, in the past, endorsed proposals for countercyclical grants to state and local governments to help cushion the effect of cyclical behavior by the national economy. In light of the economic outlook for 1974, I feel this would be an appropriate time to endorse such a recommendation, particularly as an alternative to defense spending as a stimulus to the economy.
SUPPLEMENTARY VIEWS OF SENATOR BENTSEN

The Committee Report notes in its introduction that our nation has repeatedly suffered the consequences of insufficient foresight in its economic policies.

I share the Committee's concern over the lack of long-range economic thinking about the future problems of growth in the American economy.

At the beginning of the year, I asked the members of the Committee to create a new Subcommittee on Economic Growth for the purpose of looking ahead at the prospects for economic growth in the United States over the next decade. The Subcommittee, which I will chair, has been established and initial hearings are scheduled for May 7, 8, and 9.

The Committee Report's outlook for 1974 is economic stagnation—essentially no real growth, accelerating inflation, and higher levels of unemployment. I am very much opposed to the Administration's apparent shift to a full employment target which results in a national unemployment rate of 5% or more. I believe an unemployment rate substantially below 4% should be our longer-term objective.

The President's Council of Economic Advisers makes it sound as if we are down to one goal for national economic policy—the avoidance of inflation. The Employment Act of 1946 commits the Government to the goals of full employment and healthy economic growth as well as maintaining reasonable price stability. Some economists are projecting a long term inflation rate in excess of 4½% for several years, no matter what combination of fiscal and monetary options are followed. Rather than accepting higher unemployment rates as inevitable, I believe we must find better ways of combating inflation than policies which continually choke off growth.

The Congress as well as the President's Economic Advisers share the burden in improving long-run anti-inflation policies. I believe our new Subcommittee can suggest to the Congress policy options to insure a balance between relative price stability and long-term economic growth.

The Subcommittee will also explore our long-range needs of industrial capacity, capital accumulation, and raw materials supplies. A far greater effort is required to identify and meet long-run problems before they are upon us. The American people have a right to expect those of us in government to do more than flounder from crisis to crisis.
Minority Views
on the
February 1974
Economic Report of the President

Note.—These minority views are not directly responsive to the issues and recommendations included in the committee report. The extremely tight schedule prescribed by law does not provide sufficient time for the minority members to receive and analyze the report written by the majority, and then develop views based upon it. Consequently, as has been true in recent years, the two reports have been developed concurrently, and the minority’s views are independently based upon the 1974 President’s Economic Report, other messages and this committee’s hearings.
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I. PERFORMANCE IN 1973—THE OUTLOOK FOR 1974

A. Growth

Nineteen hundred and seventy-three was a difficult year for the American economy. However, in spite of the surprisingly strong inflation which permeated the economy this past year, the Council of Economic Advisers’ projection of last January that, “[T]he U.S. economy will expand substantially in 1973” has proved correct. The economy grew at a rate of 11.6 percent during 1973, with a real rate of growth of 5.9 percent. In addition, the labor force grew by over 3 percent, and the unemployment rate dropped to an average rate of 4.9 percent from its 1972 average of 5.6 percent.

Last year the CEA predicted that 1973 would contain the residual of an industrial boom that began in 1972. Chairman Stein stated that through prudent monetary and fiscal management a “soft landing” was in store at the end of that boom. What Dr. Stein could not foresee, in company with every other economic forecaster, was the grave impact that the current energy crisis and worldwide food shortages would have on the economy. The GNP deflator, the broadest measure of inflation of the economy as a whole, increased by 5.4 percent during 1973, when most economists were predicting a figure of a little over 3 percent.

The first quarter of last year was very strong, with the economy expanding at an annual rate of 8.7 percent, in constant dollars. However, the effect of rising prices was to take real spending power out of the economy. By March industrial production had begun to be affected, and the growth rates in the last three quarters subsided substantially. The energy crunch, which began in October, only exacerbated this trend.

Business expenditures for new plant and equipment increased by 10.5 percent this past year, continuing the uptrend of the two previous years, and fulfilling the forecast of the Council. The rapid economic expansion in 1972 generated increased capacity needs, and rising profits during that year generated funds for capital purchases during 1973. These expenditures should continue through 1974, in view of additional needs for added capacity in a number of our basic industries, such as steel, aluminum and cement. Inventory investment, however, was low during the first three quarters of last year, contrary to the predictions of the Council of Economic Advisers and private forecasters, and the ratio of inventory to sales reached a 22 year low. Strong demand and rapid turnover probably account for much of the low inventories.

Government purchases reacted as forecast by the Administration economists, increasing a total of 1.3 percent.

Within this sector, the Federal portion declined, while State and local government spending, helped by revenue sharing disbursements, increased by almost 6.5 percent.
A highlight of the 1973 economy was the reversal of our balance-of-payments deficit. In the fourth quarter of 1972 the United States was a net importer of goods and services. In fourth quarter 1973 our net exports exceeded our imports at an annual rate of $12.8 billion, seasonally adjusted. These developments put the United States merchandise trade account into the black for the first time in 3 years. A worldwide industrial boom, with high demand for U.S. industrial materials, component parts and capital equipment, coupled with increased foreign demand for U.S. foodstuffs, did much to enhance our export outflow. At the same time, the dollar devaluation made U.S. goods more attractive abroad and inhibited the inflow of foreign goods. While helping to turn around our balance of payments, however, foreign orders for U.S. goods also were responsible for some of the acute shortages which developed in a number of our basic materials industries, such as steel, cement, paper, aluminum and petrochemicals.

Consumer spending increased by almost 11 percent in 1973, exceeding the Council's prediction of 9 1/2 percent in the 1973 Annual Report. Increased transfer payments in the form of larger Social Security benefits were partially offset by higher payroll taxes, but nonetheless contributed to the increase in personal income. In addition, income was augmented by the refunding of Federal income tax over withholdings in 1972. However, consumers paid much higher prices for the goods and services they purchased in 1973, and consumption in constant dollars increased only 5.3 percent. In other words, prices account for over half of the total 11 percent increase.

Most of the increase in real consumption took place during the first quarter, when the growth in output was at its peak. As inflationary forces worked their way through the economy, the effect on the real rate of growth of purchases of goods and services was marked. This was especially true with respect to food. The Council's Report points out that real food consumption in dollar terms declined after the first quarter of 1973 because of reduced domestic output, the increase in the cost of imported foodstuffs and the consumers' substitution of lower-cost foods. In addition, exports of U.S. foodstuffs abroad contributed to higher prices at home. Higher energy costs and uncertainty about gasoline prices have cut consumers' expenditures in some areas which were not offset by increased spending in other sectors.

Last year the Council projected that housing starts would decline somewhat in real terms during 1973. Averaging only about 2.1 million this past year, down from 2.4 million in 1972, last year's housing situation reflects not only the crunch in mortgage markets which began this past summer, but also the lower real income of the American worker and the much higher prices of new homes. An upturn in the housing sector during 1974 is expected to be a significant factor in stimulating the economy in the second half of this year.

Rather than making any prediction or projection for the course of Gross National Product in 1974, the Council of Economic Advisers has suggested that an appropriate goal for GNP this year, in the light of present economic conditions, would be an increase at a rate of 8 percent to approximately $1,390 billion, up $101 billion from 1973's $1,289 billion. Unfortunately, forces already at work will be
responsible for making the first half of this year a period of little, if any, real growth, with prices and unemployment going up and output declining. Additionally, the Council expects that of the 8 percent growth which we might achieve for the year as a whole, only 1 percent will be an increase in real output, with the remainder attributable to price increases. Most private economists are making fairly similar projections regarding growth and inflation at this time.

This unfortunate mix of low real growth and high inflation is attributable in significant part to our serious energy shortages. When Chairman Stein testified before this committee in December, he introduced into the record a table showing the forecasts of 20 private economists made prior to taking the energy crisis into account. The average rate of real growth predicted by these economists for our 1974 economy before adding the energy factor to their projections was 2.5 percent. Thus, it can be said that the energy crisis may be held accountable for GNP growing 1 to 1 1/2 percentage points less in 1974 than it would otherwise have been expected to grow.

In the third and fourth quarters, however, the pace of growth should quicken substantially for a number of reasons. First, automobile sales should begin to rise as auto manufacturers shift as much production capacity as possible into small cars. Second, housing starts are bottoming out and should begin to rise. In January 1974 the Department of Housing and Urban Development received authorization to purchase mortgages on up to 200,000 units at 7 3/4 percent. Coupled with other governmental actions in late 1973, this development will help reduce tightness in mortgage markets and will promote new starts. Third, a good harvest is now being predicted by the Department of Agriculture and food prices are expected to ease during the second half of the year. Finally, we hope that much of the uncertainty now surrounding the energy issue will be removed or, at least, reduced in scope by mid-year. Should this happen, auto sales may well be stimulated as consumers have a better idea of the availability of gasoline. Additionally, homebuyers will be better able to make commitments to home purchases as they feel more assurance regarding their gasoline needs in suburban locales.

We believe that there are other reasons to expect an expanding economy during the second half of 1974. Business fixed investment should be strong as tight supply situations which manifested themselves last year stimulate new plant and equipment investment. The Council of Economic Advisers, the Department of Commerce and McGraw-Hill have all forecast a large increase in business investment this year. Federal government expenditures, which rose very little in 1973, are expected to rise by 10 percent this year, adding additional stimulus to the economy. State and local spending is expected to rise about 12 percent.

Consumer spending is expected to be slow in the first half of this year, but it should improve significantly in the two latter quarters. The problems of the first half include the time lag until small cars come onto the market, the continued need to spend more on energy products until late spring, and probable continued food price increases. The Council also reports that income transfers in the form of
Social Security increases, increased food stamp payments and increased retirement benefits to Federal workers and veterans will manifest themselves in the form of increased income during the second half.

We believe that the Council of Economic Advisers’ projection of a rather weak economic growth during the first two quarters, when the problems of energy shortages will still be working their way through the economy, is accurate, and a moderate growth rate for the second half of 1974 is a realistic one. We believe fiscal stimulus in the form of a tax cut would be ill-advised and inflationary at this time. However, we recommend that the contingency plans for greater stimulus to the economy, alluded to by Chairman Stein. Secretary Shultz and Director Ash in their testimony before this Committee, be implemented immediately if there are no signs of an economic upturn, especially in housing and automobiles, by late second quarter of this year.

B. Fiscal Policy

The Council of Economic Advisers 1974 Annual Report contained a quite comprehensive analysis with regard to fiscal policy in 1973 and as projected for 1974, including extensive discussion of changes in Federal expenditures, receipts, deficits and surpluses between the two years. Rather than discuss that analysis in detail, this Section of the Minority Views responds generally to the analysis presented by the Council, especially with regard to fiscal policy in 1974, and states our views on the problems and accomplishments of recent years and the opportunities in years ahead in the area of fiscal policy.

Concerning the overall course of the Federal Budget during calendar year 1974, as compared to calendar 1973, we agree with the analysis of the Council of Economic Advisers that the budget surplus would tend to change very little between the 2 years if the economy were operating at the same utilization rate of the labor force. Therefore, the impact of the budget in the 2 calendar years appears to be fairly neutral, not operating to divert the economy from its normal growth path in either direction. As the Council points out further, however, if the economy, as now expected, operates at a lower level relative to potential in 1974 than 1973, the Budget will move toward deficit as Federal governmental receipts are lowered and unemployment compensation payments rise, with the overall effect of supporting the economy, or at least moderating any slowdown.

Additionally, Administration witnesses testified before this Committee in the last several months that should the anticipated pickup in economic activity, led by the housing and automobile industries, not develop as hoped in late spring, the Administration will propose a number of programs aimed at supporting the economy. These contingency plans are being developed in the Executive Branch at present.¹

¹Representative Brown states: “Should the need for such programs arise, in my opinion one alternative which should be seriously considered in any plan for supporting or increasing employment is that of expanded programs in the area of public works. There are a great number of communities and local governments throughout the United States with fully completed local public works...
With regard to fiscal years 1973 and 1974 in general, we are heartened by the fact that the Federal budget deficit in fiscal 1973 and the expected deficit in fiscal 1974 are well below the deficits first projected in those 2 years by a total of almost $20 billion. The very large actual deficits for the fiscal years preceding 1973 and 1974, and the originally projected deficits in those 2 years, were matters of serious concern to the Minority Members of this Committee, regardless of the short term appropriateness of some of those deficits. It is unfortunate that the difference between the originally projected deficits and the actual deficit in fiscal year 1973 and the presently projected deficit in 1974 were the consequence not of exercising better control of Federal expenditures, as a general matter, but of tax receipts by the Federal government much higher than anticipated. The higher tax receipts resulted from the growing inflation, which affected personal incomes and placed many Americans in considerably higher tax brackets. Nonetheless, the reduction in deficits as a consequence of the stabilizing counter-cyclical influence of our progressive income tax system is most welcome.

Another welcome development of the last several years, which we support, is the reduction in the Federal employment rolls. We are well aware of the vital part which the Federal bureaucracy plays in administering the many programs and activities of the Federal Government. Nonetheless, there was an unfortunate trend during most of the 1960’s simply to keep adding more and more people to the Federal payrolls, with often inadequate consideration of the real need for such personnel. For example, between 1961 and 1969, civilian Federal employment increased by almost 500,000 persons, or 21 percent, for an average growth of 2.6 percent a year. Between 1969 and 1973, however, Federal civilian employment has declined approximately 130,000 people, or more than 5 percent. Such a decrease, of course, represents a tremendous savings to the Federal government and, ultimately, the taxpayers.

At the same time we have seen a dramatic reduction in the Federal payrolls, and the decrease in certain Federal activities inherent in such a reduction, we have also witnessed a substantial return of funds and decision making power to the states and local governments as part of the President’s New Federalism. Under the general revenue sharing program enacted two years ago, discussed in more detail later in these Views, from $6 to $6 ½ billion of grants-in-aid will be distributed to states and local governments each year through 1976.
These funds have enabled those governments to start new or reactivate long-delayed existing programs and activities, as well as to reduce heavy tax burdens where appropriate. State and local governments have spent these funds directly on both capital improvements and a variety of human resource and economic development programs. As the Council of Economic Advisers points out in its 1974 Annual Report, the general revenue sharing program has influenced most positively "the financial stability, vitality, and independence of state and local governments."

In closing, we would like to make one additional comment with regard to a very large part of the Federal Budget, large on both the income and expenditure side—namely, social security taxes, contributions and payments. We have alluded above to the counter-cyclical, stabilizing nature of the Federal Budget: As the economy expands and real income rises, or inflation increases sharply (or a combination of both), Federal tax receipts go up at a faster rate than expenditures; as the economy shows weakness, Federal receipts tend to drop faster than expenditures, which supports the economy. In its 1974 Annual Report, the Council of Economic Advisers points out that in 1969, contributions for social security represented approximately 20 percent of all Federal receipts, and benefits accounted for approximately 17 percent of all Federal expenditures. Within four years these ratios had risen to 24 percent and 23 percent respectively.

The increasing importance in the Federal Budget of social security receipts and expenditures has several serious effects. It operates to reduce the counter-cyclical, stabilizing influence of the Federal Budget, in that social security taxes are imposed at a flat rate and are therefore less responsive to changes in the level of economic activity. The greater importance in budgetary terms of the social security system also increases the size of the "uncontrollable" items in the Federal Budget, reducing the Federal government's power to affect the economy through fiscal policy decisions.

Equally important, this trend in recent years is especially unfortunate in the sense that we seem to have embarked on a course of increasing both social security benefits and taxes at a rapid rate without sufficient consideration of where the whole social security system is headed, that is, how it is to be funded in the future, the burden which we are placing on future generations of taxpayers, the cost of continuing to increase both the rate and the base of a tax which falls most heavily on some of those Americans with the least capacity to pay. In our opinion, the time for a comprehensive review of the nature and operation of our social security system has arrived. We hope that the Congress will go forward with such a review as promptly as possible.

C. Monetary Policy

During 1973 much was demanded of and blamed on monetary policy. Over the course of the year, interest rates soared to record heights, spurred by a rapidly expanding economy and the demand for credit which such an expansion generates, as well as by a sudden upsurge in the rate of inflation. Observers of this rise in interest rates
were quick to criticize the conduct of monetary policy, claiming that the Federal Reserve System was attempting to restrain inflation at the cost of substantially slowing growth in the economy and preventing adequate reduction in the number of unemployed persons. However, in our opinion, an examination of the course of monetary policy during 1973 as a whole does not reveal that monetary policy was effectuated in a restrictive manner, but rather that the problems were caused in large part by an economy expanding too rapidly, with the inevitable shortages which such an expansion creates, an inflation stemming in large part from this too rapid expansion, and by unanticipated price pressures in certain sectors, especially food and energy.

Specifically, what did various monetary aggregates do in 1973? For the year as a whole, M-1, the narrowly-defined money stock, grew at an annual rate of 5.7 percent, while the broader aggregates, M-2 and M-3, each grew at an annual rate of 8.6 percent. As the year ended and the Fed moved to limit the negative economic effects of the oil embargo and the energy shortages, certain of the monetary aggregates expanded rapidly. For example, from third quarter to fourth quarter 1973, M-2 expanded at an annual rate of 10.1 percent, on an end-month-of-quarter basis, and 8.5 percent per annum, on a quarterly average basis. M-3 expanded on an end-month-of-quarter basis at an annual rate of 9.2 percent from third quarter to final quarter 1973, and at a 7.4 percent rate in the final quarter on the quarterly average basis. The 10.1 percent expansion of M-2 in the final quarter of 1973 contrasts to an expansion in third quarter 1973, on an end-month-of-quarter basis, of 5.2 percent; the M-3 expansion in fourth quarter 1973, at an annual rate of 9.2 percent, compares to an expansion in third quarter 1973, on an end-month-of-quarter basis, of 4.5 percent.

In our opinion, these numbers indicate that monetary policy was not being used during 1973 to choke off an economic and credit expansion, but that a somewhat runaway expansion created such a demand for credit that interest rates were driven sharply upward. Had the Fed attempted to meet those demands for credit in the short run through monetary policies which would have held interest rates down temporarily, an already powerful inflation would have been fueled further as more and more dollars were pumped into the money supply. The end result of such an "easy money" policy would have been just the high interest rates which such a misguided policy would have been aimed at avoiding in the short run. Even in retrospect, it is difficult to see what set of monetary policies, in an overall sense, would have been more appropriate over full-year 1973 than those which were actually pursued.

As 1973 ended, the economy was slowing significantly for a number of reasons. The energy shortages, precipitated by the oil embargo, were impairing the productive capacity of American industry. In particular, the automobile industry was slowing significantly as a result of gaso-

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2 M-1 is currency plus private demand deposits adjusted.
3 M-2 is M-1 plus bank time and savings deposits adjusted, other than large Certificates of Deposit.
4 M-3 is M-2 plus deposits at mutual savings banks and savings and loan associations.
line shortages, with the powerful primary and secondary effects which any slowdown in that very large industry has on the overall course of the economy. The inevitable material shortages and bottlenecks which follow a too rapid economic expansion were slowing many other industries. Additionally, some analysts felt that the strong economic expansion had, regardless of the energy problems, substantially run its course by the end of the year. The housing industry was in an unhealthy condition, because of both high interest rates, which affect builders and purchasers, and the simple unavailability of mortgage funds from the thrift institutions for prospective purchasers, which occurs whenever interest rates go to such a level that funds are drawn out of thrift institutions in large amounts to more attractive investment opportunities.

As 1974 began, as the economy slowed, short term interest rates began to decline significantly from their 1973 peaks. These declines are attributable to several factors, including the reduced credit demands which generally accompany an economic slowdown and the relatively strong expansion in some of the broad monetary aggregates in late 1973. These interest rate declines will be helpful to industries such as housing, which we expect will help to spark the recovery from the period of little or no economic growth expected in the first half of 1974. However, if the lower rates are to hold, we must make substantial progress against inflation, or we shall see an additional premium for inflation added to market rates at both short and long term which will cancel recent declines. Continued uncertainty about long term prospects for controlling inflation is already reflected in the fact that long term interest rates have not declined substantially in recent months.

All of the above indicates a need for special caution in implementing monetary policy during 1974. As we have suggested, too great an expansion of the money supply will only fuel our already strong inflation. Additionally, in many ways we have not a demand problem, but a supply problem, in our economy today. Fluctuations in the various monetary aggregates cannot solve this problem for us. On the other hand, inadequate growth could pressure all interest rates upward in 1974, even though credit demand generally this year will be less in many areas than last year. Inadequate credit and high interest rates will only weaken an already severely battered housing industry. Further, since relatively large price rises are expected in 1974 in any event, insufficient growth in the money supply to accommodate this inflation, which cannot be reduced significantly in the short run by monetary policy, runs the risk of causing a period of no growth or a moderate decline in output early this year to become a serious economic recession. Finally, there will still be reasonably strong credit demands in 1974 in certain sectors, to finance both inventory and business capital investment, for example.

What, therefore, is an appropriate course?

As the Council of Economic Advisers points out in its 1974 Annual Report, in recent years GNP has tended to grow in any given year in reasonable proportion to growth in the broadly defined
money stock, M-2. Accepting as a reasonable estimate the Coun-
cil’s projection of 8 percent as a realistic path for growth in GNP
in current dollars during 1974, we support the Council’s statement
that a continued growth in M-2 at an annual rate of approximately
8 percent would be desirable over the year,6 bearing in mind the
exceptional difficulties this year in forecasting what course the
economy will take over the next 12 months and what monetary
policy will be appropriate in the light of changing conditions.

D. Employment

The continued expansion of the economy in 1973 led to both a sig-
nificant gain in total employment in the United States, and to an even
more significant decline in the rate of unemployment. This past year
total civilian employment increased by 2.7 million people, the largest
one-year increase in 26 years. From January 1973 through December
1973, the civilian labor force increased by more than 3 million per-
sons, although the rise for the year as a whole, over 1972 levels, was
only 2.2 million persons. The large peacetime increase of 3 million per-
sons during the year was attributable in large part to an increase in
the labor force participation rate,6 rather than shifts from the Armed
Forces or from population increases in the working-age groups. The
large expansion that took place last year moved the labor force par-
ticipation rate up one percent during the year.

The unemployment rate in 1973 declined substantially, from an
average rate of 5.6 percent in 1972 to 4.9 percent in 1973. We
agree with the Council of Economic Advisers that the goal of “maxi-
mum employment”, described by the Council last year as “a con-
dition in which persons who want work and seek it realistically
on reasonable terms can find employment” was approximately
met in 1973. With total employment rising so greatly, with the large
proportion of the population over the age of 16 employed, and with
unemployment, if age-sex groups in the labor force are weighted ac-
cording to importance in 1956, as described in the Council’s 1974 An-
nual Report, averaging 4.1 percent for the year, we believe that this
goal was reached.7

5 Representative Blackburn does not agree. He states, “In my opinion growth in
M-2 at an annual rate of 8 percent during 1974 is far higher than desirable and
would have an exceptionally strong inflationary effect on the economy.”
6 The labor force participation rate is the total labor force stated as a percent
of the noninstitutional population aged 16 years and over.
7 Representative Brown states: “A new study of definitions of unemployment
is years past due, in light of all the sustaining mechanisms for the unemployed
individual which have been built into the system during recent years. ‘Full em-
ployment’ and, hence, ‘a full employment budget’ may have vastly different
meanings today because of unemployment compensation, strike funds, welfare,
early retirement and pension plans, than they did when the Committee for Eco-
nomic Development defined those terms almost thirty years ago.

Some responsible body (perhaps the growth agency recommended in the sec-
tion of these views entitled ‘Long Term Growth’ or the Joint Economic Com-
mittee, if it can avoid the partisanship which sometimes mars its consideration
of economic statistics, or the Council of Economic Advisers, if it can avoid in-
ordinate defense of the status quo) could make a real contribution by updating
the economic impact of unemployment, as it is defined today.”
In addition to a decline in the unemployment rate last year, the average duration of unemployment declined. The number of those unemployed for 5 weeks or less was a high percentage of the total unemployed, indicating rather short duration of unemployment for the average worker.

In 1974 we face an unemployment problem which, like most of our economic problems, is related to the energy crisis. Lack of energy has resulted in plant slowdowns and shutdowns, transportation cutbacks, and substantial business losses in recreation and vacation areas. Many people have lost jobs as a direct or indirect result of the energy crisis, and the general employment prognosis for the first half of 1974 is less than satisfactory.

The Council of Economic Advisers has predicted that unemployment for 1974 will average a little above 5.5 percent. We recognize that this is a high rate, especially compared with our achievements last year. We also recognize the uncertainty which still faces the economy during the coming year, and the hardships that may fall on those who lose jobs. One way to lessen those hardships would be to broaden the coverage of our unemployment compensation system.

Last April the President proposed an improvement of the unemployment compensation system which would raise the maximum weekly benefits to at least two-thirds of the average state wage, as well as extending coverage to farm workers. Currently, the duration of unemployment benefits is extended throughout the country when the national insured unemployment rate is at or above 4.5 percent for 3 consecutive months. The duration in a State is extended when a 13 week moving average of that State's own insured unemployment rate equals 4.0 percent or more and exceeds 120 percent of the average of the comparable period in each of the 2 preceding years. While these provisions of the law may be helpful in the unemployment situation we face, the President has stated that he will submit a proposal for further expansion of unemployment benefits in areas of severe unemployment. **We support the Administration's efforts to improve on present unemployment compensation programs. However, we believe that any increase in unemployment benefits should not be tied directly to a specific cause or category of unemployment, such as persons left unemployed by energy shortages, for example, but that equivalent benefits should be available to all persons unemployed for whatever reason.**

**E. Economic Stabilization**

**Phase III**

In last year's *Minority Views* we stated that, "We believe that Phase III is a step in the right direction of getting away from artificial controls to manage our economy." At that time, in January of 1973, the Administration had just made the decision to place most of the economy on a self-administered basis, maintaining direct controls only on the food, health, and construction sectors. This decision was based on the fact that by the end of 1972, prices had subsided and wage increases had leveled off, and it was feared that continuation of direct controls would interfere with production and investment decisions during the expected expansion which came to pass in 1973.
The rules and regulations governing business and labor during Phase III were substantially the same as during Phase II with the exception of their administration being self-executing rather than under the direct supervision of the Cost of Living Council.

During the first three months of Phase III, the unforeseen factors which changed the outlook of last year's economic picture to the surprise of all forecasters began to manifest themselves. First, domestic farm prices increased substantially over Department of Agriculture predictions, causing large increases in the retail food sector of the Consumer Price Index. Second, the simultaneous industrial boom which was occurring in most of our major trading partners pushed industrial capacity close to its limits, with the result that a wide range of commodities indices shot upward. Third, the two devaluations of the dollar in 1972 and 1973, coupled with the downward float of the dollar in world exchange markets during the spring of 1973, made U.S. goods substantially more price-competitive abroad. The effect of this was felt particularly in the market for U.S. raw agricultural commodities.

Because of these factors, domestic price levels during the first half of 1973 rose unsatisfactorily at increasingly rapid rates. Prices of highly visible items in the Consumer Price Index such as meat, fuel oil, and other items soared. Later, large increases occurred in industrial commodities, reflecting spiralling costs of other basic goods.

On June 13th the President announced a freeze to be followed by a new system of controls. Dividends and interest rates continued under voluntary controls, and rents and raw agricultural products at the first sale were excluded from the freeze.

Unfortunately, the freeze could not stop the wave of inflation that was generated in the agricultural sector, due to previous bad weather and increased foreign demand, which was coupled with increased foreign purchasing power. Since food processors and manufacturers were squeezed during the freeze by rising costs and frozen prices, many of these processors cut back on production. Shortages developed, and the Administration hastened to end the freeze and implement Phase IV.

**Phase IV**

Phase IV of the Economic Stabilization Program contained even more stringent rules and regulations for the wholesale, retail, manufacturing and service sectors of the economy. The Administration hoped that implementing this Phase would help postpone some price increases while monetary and fiscal policy were working on cutting back demand.

The base price rule during Phase IV was the average price charged in the last fiscal quarter which ended before January 11, 1973, as compared with the Phase II rule which allowed the highest price at or above which 10 percent or more of the units were charged during the 30 days prior to August 15, 1971. In Phase IV only dollar-for-dollar cost passthroughs were allowed, whereas Phase II allowed full profit margin maintainance.

The procedures and coverage during Phase IV are similar to those in Phase II and include an exceptions process, prenotification regulations, reporting rules and exemptions from controls for most small
firms. The food and health sectors continue to be governed by special regulations during Phase IV.

Other Government Measures To Reduce Inflation

In addition to the activities of the Cost of Living Council, there were many other government moves toward mitigating inflation in 1973. In the area of foodstuffs, vast efforts were made to increase domestic supplies of food, to reduce pressure on prices and to increase farm production. These included review by the Cost of Living Council of Department of Agriculture marketing orders and agreements, marketing guides, and purchases of food for distribution programs. All direct subsidies on the export of farm products were eliminated. Farmers were granted permission to use set aside acreage for year-round grazing of livestock to stimulate meat production. The mandatory acreage set-aside requirement was eliminated with respect to wheat. Stocks of grain owned by the Commodity Credit Corporation were sold. Quotas on meat imports were eliminated. Diverted cotton and feed grain acreages were returned to production.

The cheese import quotas were liberalized, with the result that an additional 47 million pounds of cheese came into the United States last year. Non-fat dry milk imports were increased by 265 million pounds. A temporary embargo was placed on exports of soybeans and other agricultural foodstuffs. In December the Federal Trade Commission agreed to allow backhaul by motor carriers of food, thus reducing transportation costs. Public Law 480 shipments of foodstuffs were decreased significantly. Rice acreage allotment was increased by 20 percent, and projected domestic sugar requirements, for the purpose of calculating sugar import quotas, increased by 300,000 tons in 1973. Dairy import quotas of butter and butter oil were both expanded. The milk price support level was established at the lowest level required by law. Class I milk prices, regulated by the Department of Agriculture, were not allowed to increase in October, and guaranteed minimum prices were not permitted to be established for the remainder of the marketing year, until March 1974. Wheat import quotas for the remainder of the current crop year were eliminated.

All of these changes in the agricultural sector, aimed at increased supply and lower food costs will have a major impact on the food components of the Wholesale and Consumer Price Indexes. There will, however, be some lag before many of these actions, consummated during the past year, have an impact in the form of lower food prices in 1974.

In addition, several steps were taken to increase lumber supplies in an attempt to stop sharp increases in domestic prices. These included increasing the amount of lumber cut from national forests, and concluding voluntary agreements with Japan to reduce their log purchases from the United States.

In order to increase the supply of basic metals in the United States, prices of which were reacting to a strong world demand, the Administration released stockpiles of materials no longer needed for national security reasons, requested legislation to provide additional authority for the President to use sales from stockpiles to fight inflation, exempted copper scrap from controls to allow the domestic price to
compete with the world price and stop the flow of goods out of the
country, extracted commitments from non-ferrous metals producers
to increase production in exchange for an easing of the price controls
on these items, and temporarily imposed export controls on ferrous
scrap to increase domestic supplies for our nation's steel and iron
producers.

Attempting to rid the economy of artificial controls as soon as possi-
ble, the Cost of Living Council exempted several sectors of the econ-
omy from price controls this year. These sectors included those where
either continuation of controls would have resulted in reduced sup-
plies or where commitments to increase supplies or maintain stable
prices were obtained. These sectors included rent, lumber, fertilizer,
cement, certain non-ferrous metals, automobiles, rubber tires and tubes
and most petrochemical feedstocks. In addition, the prenotification and
cost justification requirements were removed from other petrochemical
products to help relieve the feedstock shortages.

Wage controls were put on a voluntary basis at the beginning of
1973, with the 5.5 percent wage guideline as a continuing standard.
Mandatory wage controls were maintained in three sectors of the econ-
omy where the Cost of Living Council saw special problems: food,
health and construction. Other wage adjustments were self-adminis-
tered, with the Council retaining the power to reverse inflationary
increases. A high degree of voluntarism made it unnecessary for the
Cost of Living Council to intervene except in a very small number
of cases. This is in consonance with the operating philosophy of the
Administration towards wage stabilization, which is to have moderate
wage increases without interfering with the free collective bargaining
process.

In addition to the general wage standards, efforts have been made
to deal with wages in the “problem” sectors, namely food, health and
construction. A tripartite Food Industry Wage and Salary Committee
was formed to advise the Council on options in this area; a Health
Industry Wage and Salary Committee was established to deal with
wage problems in the health sector; the Construction Industry Stabili-
zation Committee has been concerned with moderating rates of in-
crease of wages and benefits in the construction industry, as well as
with trying to stimulate an improvement in the long-term perform-
ance in this industry.

We agree with the Council’s Annual Report which states that
it is impossible to determine the real impact that wage and price
controls have had in 1973 due to the unusual types of inflationary
pressures that were brought to bear on our economy this past year.
We also agree with the statement of Dr. John Dunlop, Chairman of
the Cost of Living Council, who has stated that, “Controls may have
a small and incremental effect to constrain inflation for short periods.
Controls are a special purpose and limited tool to constrain inflation,
rather than a general purpose policy. Their potential for adverse ef-
fects on output and efficient production needs always to be watched
carefully. This problem becomes more and more serious the closer the
economy is operating to capacity and the more significant international
interrelationships involving products important to the domestic econ-
Dr. Dunlop’s statement has been borne out by our experiences of the past year. Adverse effects on output and production were seen when the “freeze” interfered with beef and chicken production, and shortages at the supermarket level appeared. We also saw many instances where controls on important basic materials caused a substantial outflow of these items—with resulting domestic shortages—as the world price rose above the domestic price and as the devaluation of the dollar caused U.S. goods to be more attractive to foreign buyers.

For the reasons listed above, we believe that the proposals offered by the Administration on the extension of the Economic Stabilization Act and the continuation of controls in limited areas to be the soundest way to proceed with the management of the economy in 1974. The Economic Stabilization Act should be amended so that the primary responsibility of the Cost of Living Council is to deal with supply, capacity and other underlying inflationary conditions. The economy should be decontrolled on a sector by sector basis without further legislative amendments, and the Council should seek commitments of responsible price behavior from industries seeking decontrol. The Economic Stabilization Act should be extended after April 30, 1974, to authorize mandatory wage and price controls only in the health care sector, with even those controls to be phased out as quickly as possible, certainly no later than enactment of comprehensive health insurance legislation of the type recently offered by the Administration.

Dr. Dunlop, in his testimony before this Committee, stated that “The Federal Government must have a continuing and deep concern with the rate of inflation.” He proposes, and we agree, that the Cost of

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*Senator Javits states, “I believe that it would be inappropriate, at this time, when all economists including Administration officials are predicting a high rate of inflation for 1974, to let the standby authority for wage and price controls in the Economic Stabilization Act expire. In my opinion a 1-year extension of this authority is necessary.”

*Senator Percy states, “I favor ending wage and price controls as soon as possible. I believe they should be ended at the latest on April 30 and I would oppose standby authority which I consider to be itself an incentive to inflationary price increases. Controls have created supply bottlenecks, exports of domestically needed raw materials, and have contributed to our present grave economic problems. The Cost of Living Council should continue to monitor wages and prices for a limited period by Executive Order. Fuel prices are controlled under separate legislation. A compelling need for controls in the health care areas has not yet been demonstrated. At the moment I would not like to risk extending the Economic Stabilization Act to cover the health area alone.”

Concurring with Senator Percy's views, Representative Brown further states, “Controls can sometimes work on a voluntary basis for a limited period of time; but since those controls were just established as voluntary, two and a half years have passed, and it has been established that the laws of supply and demand cannot be repealed.”

*Representative Blackburn favors ending wage and price controls immediately. “In no circumstances should controls be extended beyond April 30, when the Economic Stabilization Act expires. Controls have caused many shortages and bottlenecks, hampering American industry's production capacity. The free market should be permitted to correct this situation as promptly as possible.”
Living Council should undertake to monitor decontrol commitments, review government activities which impact on supply and price activities to see that they are most beneficial to the economy, improve wage and price data for various sectors so they can be monitored on inflation restraint, monitor export and import commitments and flows, and conduct public hearings for public scrutiny of inflationary problems in various sectors.

The need to control prices in the petroleum area has been made evident by the energy crisis. Congress has already acted upon this by legislating the authority to control prices in the Emergency Petroleum Allocation Act of 1973. However, these rules and regulations are administered by the Federal Energy Office rather than by the CLC. The FEO has this authority through February 1975.

We believe that by following the steps outlined by Dr. Dunlop, the economy can be placed on the proper course towards increased growth without excessive inflation, and can progress towards our goal of return to a free market economy.
II. ENERGY

Earlier this month three Subcommittees of the Joint Economic Committee issued a comprehensive report entitled “A Reappraisal of U.S. Energy Policy.” We do not wish to restate here the discussion and recommendations contained in that Report, but rather to emphasize those areas of energy policy which in our opinion are of special importance. As can be seen from the footnotes which a number of the Minority Members of this Committee included in that Report, many of us are quite concerned that careful analysis and consideration be given to various aspects of our energy problem before far-reaching policy decisions regarding those problems are made. It would be extremely unfortunate if at this time of crisis and severe problems, energy policy decisions were made in the heat of the moment that may seem to be appropriate for 10 days or even 10 months, but are of questionable merit for the next decade or more. This concern formed the basis of many of our general objections to the Energy Report issued earlier.

There are a number of recommendations in the Energy Report which call for certain changes in the Federal regulatory area, changes which have been well studied and are clearly desirable. The Congress is in a good position to evaluate any recommendations in this area fairly expeditiously. For example, the Energy Report touches, although briefly, on the area of surface freight transportation, mainly railroad and trucking. Reform in this area is long overdue and was discussed and supported in the Council of Economic Advisers’ Annual Report in February 1971, to which discussion most of the Minority Members of this Committee responded positively in the Minority Views to the 1971 JEC Annual Report. The 1974 Council of Economic Advisers Annual Report raised the subject again. Given the present availability of fairly complete information in this area, we hope that consideration will be given to implementing some of the recommendations contained in the 1971 Council Report and Minority Views referred to above, and in the Energy Report, so that restructuring of governmental regulation in this area may go forward promptly.

In the same vein, the Energy Report recommends that Federal lands leased to oil companies should be leased primarily through a system of royalty bidding rather than the present system of bonus bidding, which requires successful bidders to pay the entire capital value of a lease at the outset. Because of the large amounts of money required, the present bidding system greatly favors large companies and acts to prevent small companies from bidding. Although this system results in large revenues to the Federal government immediately, its anti-competitive effects are obvious. Additionally, to the extent that the size of the energy resources existing on a given parcel of Federal
land is open to question, as is often the case, the present system in some respects is analogous to taking a shot in the dark, with companies sometimes getting rights to vast amounts of Federal resources for an inadequate sum of money, and, conversely, sometimes overpaying for what they are eventually able to develop. A royalty bidding system, under which the government would retain the right to receive royalty payments on energy resources produced, would do much to assure that all parties, including the American taxpayer, receive a fair return.

Certain of the recommendations in the Energy Report, however, were either premature or inadequately supported by any firm evidence. In that Report, for example, statements were made regarding specific oil price levels at which controls could or should be imposed, which prices supposedly would be adequate as an incentive to assure exploration and development of sufficient new oil resources. Similar specific recommendations were made regarding changes in Federal tax and antitrust policy which, if effected, could have the most far-reaching effects on the energy industries.

In our opinion, it is not at all clear that there is sufficient evidence at present indicating specific price levels to which oil and other energy prices should be limited in either the short or long term and which would not inhibit further energy resource exploration and development. Additionally, we feel strongly that a comprehensive review of much of our antitrust legislation and regulation, generally, and as it affects the energy industries in particular, is long overdue, as is a study of our Federal tax structure, as it applies to the energy industries. Such a review is now going forward in the appropriate legislative committees of the Congress. However, until such review and analysis of the manner in which various changes in both tax and antitrust policy would affect the energy industries (especially their incentive to explore for and develop new energy resources) has been made, we think it premature, in general, to take specific positions endorsing or rejecting recommendations of the type in the Energy Report.
III. LONG TERM GROWTH

In 1971 the United States posted its first trade deficit of the century. Our trade account, which had once been the strongest sector of our balance of payments, fell to a $2.9 billion deficit. The conditions which forced our trade picture into this position were instrumental in the international monetary upheavals of 1971, and in the two formal devaluations of the dollar of March 1972, and February 1973.

One of those conditions was the generally inflationary setting of the U.S. economy from the mid 1960's on, a condition which contributed to the Administration's wage and price control program of 1971. As reported elsewhere in this volume our economy continues to suffer from inflation at a time when shortages exist in a large number of basic materials necessary for economic growth.

Commenting on these developments, many business and political leaders have expressed concern that something more serious than a simple overvaluation of the dollar or an unfortunate coincidence of inflationary pressures has been at fault. Reports of fundamental changes in the attitudes of working people toward their jobs have suggested to many that America has somehow gone wrong, that we are somehow becoming less productive. With regard to management, serious misgivings have been expressed about the fact that businesses have begun more and more to look to the government to insulate them from the harsh winds of competition. Even the strong Phase II price controls were supported by many businessmen, who felt that the controls helped management negotiate successfully. Summing up this attitude, former Price Commission Chairman C. Jackson Grayson wrote in a recent article that many businessmen “prefer regulation to the problems freedom poses.”

Business investment policies have also come under fire. The energy crisis has spotlighted the fact that domestic refinery construction has declined while demand for petroleum products has soared. Domestic capital investment in other basic industries such as cement, steel, aluminum, glass and paper has also been growing at historical lows in recent years.

Whether or not these observations reflect deep-seated problems in the economy as a whole, they do reflect the views of many prominent persons who have felt compelled to speak out on the effects which changing values and habits are having on our society and our economy. President Nixon himself addressed this issue in his 1971 Labor Day message. In a recent speech, Federal Reserve Chairman Arthur Burns expressed concern about the growing public disenchantment with established institutions. A Republican member of this Committee last fall found “a new skepticism about the viability of our economic institutions and a lack of trust in the function of our marketplace economy.”

We do not believe the situation is cause for panic or alarm. In fact, we believe that the American economy has been able to respond re-
markably well to the swiftly changing conditions of the past decade. In particular, we believe that the rigidity of international exchange rates which characterized the international monetary system prior to 1971 probably influenced prices, employment levels and investment rates to a greater degree than is commonly acknowledged. Thus, we are optimistic over the future of our economy, given the application of appropriate policies at the present time.

However, we do take such observations about the changes in American life seriously. We do believe that the present time requires considerable flexibility and innovation in developing economic policies for the rest of the century. Inflation still is a problem which demands immediate attention. Many basic materials are in critically short supply. Capital investment, while expected to grow swiftly this year, still falls short of the levels needed to keep pace with projected levels of domestic demand. Factory working conditions and methods have changed little over the years even though the percentage of our labor force with a high school education is almost twice as high as it was 30 years ago.

The range of solutions and policy measures which address the current set of economic problems can be generally described as policies for productivity improvement and economic growth. There is a direct connection between productivity improvement and the level of inflation. Balanced economic growth should be able to supply this country with raw materials in sufficient quantity to moderate price increases and permit high levels of investment in new plant and equipment. Our educational system should be able to supply productive employees but also management techniques for utilizing a highly trained labor force. Levels of investment in plant and equipment, if sufficient, should provide modern and efficient productive facilities to supply a wide range of consumer wants at non-inflationary prices. A sensible national materials policy could ensure that America can have access to necessary raw materials, including recycled materials, at a minimal cost to the environment.

Federal Government efforts in the past to promote balanced growth, increased productivity, adequate supplies of raw materials and orderly conservation of our natural resources have been well-intentioned but poorly coordinated at best. Specialized commissions and government departments have dealt with aspects of the overall problem, but few efforts have attempted to take on the issue as a whole. The President's Commission on National Goals (1960) was the last effort along these lines. Other Commissions which are worth noting are the National Commission on Materials Policy and the National Commission on Productivity.

We believe that the breadth of today's economic problems and the sophistication of today's economy requires a full-time body to chart the course of economic growth for the country and provide an early warning for possible bottlenecks in the economy so that appropriate governmental steps can be taken. Such a body should be independent of the Executive Branch, but be adequately enough staffed to provide thorough medium and long range analyses of the economy and recommend legislative and other solutions where problem areas are identified. It is essential that such a body
be independent of the Executive Branch in order to ensure that it not become a "planning agency" for implementing the economic policies of a particular administration.

Capital Investment.—One of the major items which such an economic growth agency must examine is the level of capital investment in this country: What is the optimum level for improving industrial efficiency and supplying the demands of society without generating overcapacity? Are the incentives for investment in this country comparable with those for investing in others? If not, is the imbalance having a substantial effect on comparative levels of investment? Are there substantial capital investments which should appropriately be done by government, in addition to traditional public works projects? (A report from this Committee 2 years ago, for example, recommended the establishment of a national computer net, under government regulation, for bringing the efficiency and convenience of computers at low cost to anyone within reach of a telephone.)

Our concern with capital investment arises from the startlingly low levels of such investment, levels which coincide in part with the shortages plaguing our economy. Investment in railroad transportation equipment has not yet reached the dollar level attained in 1966; investment in real terms, of course, lags the 1966 level substantially.

Investment in transportation plant and equipment generally in 1973 was only slightly above the 1965 level.

Blast furnaces and steel works received approximately the same dollar investments in 1973 as they did in 1957.

Investment in primary metals was the same in 1973 as in 1968.

Investment in machinery except electrical in 1973 was less than in 1969.

Investment in textiles was less in 1973 than in 1966.

Petroleum investments are at approximately the same level now as they were in 1967, a point which is often cited as contributing to the present energy crisis.

Paper investment was less in 1972 than in 1966, and finally exceeded the 1966 level last year.

Again, it should be pointed out that these descriptions reflect current dollar figures; investment in real terms in these industries is correspondingly lower now than in previous years.

The traditional response to flagging investment has been tax incentives either in the form of accelerated depreciation schedules or an investment tax credit. Usually the incentives are imposed economy-wide; occasionally they respond to a particularly pressing public policy need, such as the accelerated write-off provision in the 1969 Tax Reform Act for pollution control equipment, certain railroad rolling stock, and coal mine safety equipment.

While we endorse the use of tax incentives for capital investment in principle, we believe that current incentives often reward management for actions it might have taken anyway. We believe the government could receive bigger effect from the incentive—and the incentive itself could be made more attractive—if it were applied to the amount of capital investment in excess of a certain base period.
In the final analysis, the decision to set up a new plant or a new piece of machinery is going to depend largely upon the existence of a market for the finished product at a price which makes the investment profitable. The role of the government in this regard is to create demand both in its purchases of goods and services and also in the conduct of its monetary and fiscal policies. Here we cannot emphasize strongly enough the absolute necessity of achieving consistency in fiscal policy, assuming an accommodating monetary policy. One of the mistakes of the past decade, we believe, is that the Federal government has led Americans to believe that it will respond quickly to the pressures of the moment, upsetting carefully laid policies before they have had time to become effective.

Elsewhere in this Report we state our views concerning international exchange rates. However, it is appropriate to mention at this point the effect which an over-valued or an under-valued currency can have on investment rates. In April, 1971, for example, it took 28 percent fewer dollars to buy the same number of German marks as it does now. To the extent the old exchange rates were unrealistic, therefore, investment made by American firms in Germany during that period for the purpose of serving the U.S. market or third country markets thus had the effect of a substantial investment tax credit and wage/operating cost subsidy. Although we do not mean by this to imply that most U.S. firms deliberately invested abroad in order to escape U.S. costs imposed by unrealistic exchange rates, one cannot avoid the fact that some such investments were made for this purpose. Recently the converse of this argument has been bearing itself out: that the prospect of continued, realistic exchange rates for the dollar is consistent with a marked increase of foreign direct capital investment in the United States.

Materials Policy.—The current economic scene is unique for the large number of marked materials shortages. In part, these shortages are the result of insufficient plant capacity; there is a clear connection between sound investment policies and the adequate supply of materials. In part, the current inflation is the direct result of supply shortages. For these reasons, if for none other, this country must develop a materials policy for the 1970's and beyond.

A start was made in 1970, when the Congress passed the National Materials Policy Act. That Act established the National Commission on Materials Policy, and the Commission's final report was published in June 1973.

Both the Commission and its report are curiously reminiscent of the Paley Commission and Report of twenty years ago. That Commission, which was appointed in response to materials shortages of the Korean War period, called for improved forest management, more Federal research to improve the properties and utilities of our materials, increased recycling, reducing the size and weight of automobiles, and an intensified program of offshore drilling. These are almost identical to recommendations in the 1973 report.

The Paley Commission also recommended setting up a permanent institution to deal with materials shortages on a permanent basis; this recommendation was repeated in 1973. The growth agency which we
support follows the thrust of such a recommendation, as its effect
would be to keep before the public eye the salient features of im-
portant recommendations on these long-term issues. Clearly, the record
shows that temporary commissions, which do not have a chance to stay
on as advocates for their views, often find that their work must be
repeated by new generations.

Productivity.—In 1971, the President established the National Com-
mission on Productivity, and later that year Congress gave it legisla-
tive sanction. The vote in the Senate was unanimous. Concern had
been expressed for some years about this country's flagging produc-
tivity performance, and by 1971 it was clear that the inflationary
pressures in the economy were directly related to that performance.
Conceptually speaking, productivity is the relationship of output
to input. As a definitional matter, however, productivity in this coun-
try is usually said to refer to labor productivity, or units of output
per unit of labor input.

The factors which lead to productivity growth have been charted
by one prominent economist as: education, capital investment, new
techniques and practices made possible by advances in knowledge, im-
proved allocation or resources, and economies of scale.

It is safe to say that the actual achievements of the National Com-
misson on Productivity have fallen short of expectations, though not
through any lack of sincerity on its part. One reason for its inability
to do more is that it was seriously underfunded, running at one quarter
of its $10 million annual authorization. But two more knotty reasons
can also be given. First is that productivity improvement is such a vast
field as to defy any organized approach. Hearings on the subject of
productivity held by this Committee two years ago examined aspects of
human motivation, crime, physical surroundings, research and devel-
opment, business competition, safety and health, product hazards, re-
cycling, freedom of information, education, and advertising. Any ef-
fort to improve national productivity must either concentrate on a
few aspects of the problem, to the detriment of others, or spread itself
thin.

The other reason speaks to the purpose of the National Commission
itself, that is, honest people can disagree strongly about the proper
role of government in promoting productivity improvement in the
first place. Research activities are noncontroversial enough, but serious
questions can be raised about the Government telling business and
labor how it should become more productive. To its detriment, we be-
lieve, the National Commission adopted a low profile and attempted to
develop—through studies and grants-in-aid—some fruitful lines of en-
quiry. It also commenced a nationwide advertising campaign, to alert
American employees to the fact that America is only as productive as
we make it. To date, the major achievements of the Commission have
been a comprehensive study of the food industry, a forthcoming study
of health productivity, some projects for improving the productivity
of local government, and the establishment of a unit train to carry
food from California to the East Coast.

We believe that the Federal Government must continue the work
begun by the National Commission on Productivity, but raise both the
effort and the profile of the agency. Ideally, the agency should be linked to the economic growth agency we have described on page 107, with all that this implies in terms of independence. Such an agency should be commissioned to recommend legislation and other steps to minimize bottlenecks in the economy. It should promote, through education and public advertising campaigns, the importance of productivity improvement to the achievement of our national goals. It should fund innovative experiments aimed at increasing the amount which advances in knowledge can affect productivity. Above all, it should advocate the public interest in improving productivity.

Human Resource Development.—One critical area which must be addressed by the growth agency is that of human resource development. This is more basic than performing time studies or developing training programs; it is no less than coming to grips with societal changes of the past decade and translating them into recommendations for adapting the government to the way people think about their work. There can be no doubt that our television culture has spawned a generation of workers who feel that a piece of the affluent society is theirs for the asking. “Once a certain level of affluence is taken for granted,” writes Michael Maccoby in the major book on worker attitudes, Where Have All the Robots Gone?, “this tends to undermine the attitudes based on the principle of scarcity, that one must sacrifice individual expression and growth in order to survive.”

The implications of this state of affairs for the productivity of the nation’s economy are profound. In terms of educational achievement alone, the American worker today is almost the equivalent of yesterday’s manager. In terms of affluence and real income, he has a standard of living which is higher. It should come almost as a truism that worker attitudes have changed as well, even if—especially if—the nature of the average job has not changed.

In some ways, the nature of American work has changed. The much-observed shift in the nature of the American economy from a manufacturing to a service-oriented economy implies that types of jobs have changed as well. However, we believe that the preconditions have been met for a more fundamental change in the workplace, one which could transform employees from servants of their employers to decision-making participants in the productive process. We have also observed that the average assembly line job, in particular, is little changed from the days of the Model T.

America has found that tapping the reservoir of talent which was hidden by racial and other prejudice has altered the structure of labor markets as well as affected social values. The number of individuals from minority groups and the number of women in high places in government and industry, while insufficient, at least attests to the fact that social and economic progress go hand in hand. We believe that a similar principle applies to tapping the reservoir which is hidden by conventional attitudes about the structure of employment, the nature of the workplace, and the participation of employees in decisions regarding their employment conditions.

Far from being a radical notion, we believe that such a statement simply embodies sound economics as well as a realistic appraisal of
societal trends. It is fairly evident, for example, that the preconditions for a greater participation by women professionals in the labor force had been met long before the latest phase of the women's liberation movement became widespread.

Forward-looking firms, and even government offices, have begun experimenting with methods to give employees a greater voice in their own worklife. In many countries abroad, the use of such methods is quite well established, and some countries such as West Germany and Norway have legislation implementing these concepts. While we do not deem it advisable to impose systems of industrial organization on the private sector, it is safe enough simply to predict that methods for giving employees greater decision-making power over their jobs and a greater stake in the companies will become more widespread in the future. A decade ago, for example, no one would have questioned the fact that major decisions of corporate organization should be left to management. However, a 2½-year-old article in the *Harvard Business Review* indicates a large amount of management support for increased employee influence on management decisions.¹ In urging that attention be paid to these trends, therefore, we are simply urging that attention be paid to the obvious, and that the economic consequences of trends taking place at the present time be analyzed so that appropriate policy responses can be made.

*Employment*—Elsewhere in these Views, we examine the short and intermediate-term employment picture. A growth agency such as we suggest would have to take a look at the long-term picture. Had such an agency been established some years ago, it might have been able to anticipate some of the incipient structural problems in time to avoid some of the bottlenecks we are facing today.

We must look back to the 1972 Annual Report of the Council of Economic Advisers for a specific discussion of long-term employment planning. And since that time, the economics profession has been engaged in a controversy about the unemployment rate which corresponds to "full employment" for policy planning purposes. Most of the arguments dwell on a theoretical analysis of how to interpret the effect of the increased share in the labor force of certain groups which have traditionally had above-average unemployment rates. Few economists—and no government officials—have attempted a full-scale look at how present trends might affect the labor market of the late 1970's and the 1980's.

For example, it is known that the post-war baby boom is responsible in part for the high teenage unemployment rate. Teenagers not only constitute a larger proportion of the labor force than previously, but also have a higher unemployment rate. However, we do not know what effect this bulge will have on unemployment rates when this group moves into the prime employment category of 26-44 year olds.

The same can be said about the employment picture for women. Participation rates for women in the labor force have increased steadily in recent years. Just how high these rates will climb in the future

is open to conjecture. However, the consequences of the various possible scenarios have never been fully and openly discussed by any Administration.

In its 1972 Annual Report, the Council of Economic Advisers did make a start on the issue, by stating that it would be making "an intensive study" of the inflation-unemployment tradeoff problem, with particular emphasis on whether there might be a tendency to a persistent unsatisfactorily high rate of unemployment. The importance of examining this area, the CEA implied, was that policies designed to increase aggregate demand, often at an inflationary rate, might have only a temporary influence on unemployment. Another issue which might be examined, the Council stated further, was the converse of the above: whether this country was tending towards a persistent, unsatisfactorily high rate of inflation which could be influenced only temporarily by demand policies which necessarily raised the unemployment rate.

Today, the Council's promised effort seems even more timely. Events would seem at first blush to have proved the point that demand policies are of limited utility nowadays in combatting entrenched inflation. However, the study has not been published. Whether or not the growth agency which we have recommended ever materializes, we urge the Council of Economic Advisers and the Joint Economic Committee together to follow through on this effort to examine the long-term inflation-unemployment problem.
IV. REVENUE SHARING

General Revenue Sharing

In September 1972 Congress and the President marked a milestone in Federal-State-Local relations by passing the first General Revenue Sharing Act (Public Law 92-512). That Act was designed over the ensuing five years to distribute $30.2 billion to more than 38,000 State and local governments, including 231 Indian tribes and Alaskan native villages.

Less than one month ago, the first Actual Use Reports, showing how State and local governments actually spent General Revenue Sharing funds, were published. Thus Congress has, in addition to other observations which it has been able to make since the Act was passed, some concrete basis on which to evaluate this quite revolutionary piece of legislation.

In part, the validity of revenue sharing must stand up against the expectations which the framers of the legislation and the proponents of the concept had when revenue sharing was in its initial stages of conception. When revenue sharing was first broached as a formal concept in 1964, the proposal was quite similar to the legislation which finally passed Congress: that the Federal Government should turn back to the States a specified percentage of its revenues, or a percentage of total personal income, free of strings. Of the several arguments advanced in support of revenue sharing, one of the most important was that such a proposal was designed to rectify an imbalance in the Federal system, whereby the Federal Government in Washington had at its disposal a more flexible tax system than was available to State and local governments. A graduated income tax, which is responsible for the major share of Federal revenues, accrues revenues at a rate faster than either population or GNP growth. State and local governments, on the other hand, relying chiefly on sales and real estate taxes, cannot take advantage of a graduated tax system to the same extent as the Federal Government.

It was this fact coupled with the fact that most of our Nation’s problems were ones which ultimately had to be solved at the State and local level, that gave the fiscal impetus to the revenue sharing concept. It was thought that the so-called “fiscal dividend,” the term used to describe the year-to-year increase in Federal revenues through this flexible tax system, could be siphoned off in part to meet the growing fiscal crunch at the State and local level.

Another major rationale for revenue sharing was more political than economic: that the viability of the Federal system depended upon reversing the trend toward more and more decision-making power in Washington. The growth in the number of categorical grant-in-aid programs was cited to illustrate the fact that more and more decisions
affecting the daily lives of individuals were being made in Washing-
ton rather than at the State and local level.

By the time the General Revenue Sharing legislation was passed, however, the first major argument in its favor had lost some of its va-

validity. On the one hand, the “fiscal dividend” never fully materialized. Partly as a result of the expanded war in Southeast Asia and partly as a result of Federal tax cuts, the Federal Government itself was moving quite sharply into the red. In addition, Congress had been busy en-
acting new categorical grant-in-aid programs and refinancing the old ones; Federal grants-in-aid to State and local governments rose from $8 billion in 1962 to $36 billion in 1972.

On the other hand, the argument about the rigidity of local government revenues and the fiscal crunch which threatened to throw many such governments into bankruptcy proved to have been over-
sold. With some notable exceptions, chiefly in the urban areas of the north and northeast, State and local governments survived the 1960’s quite well, and the hardships of the late 60’s and early 70’s could be ascribed more to the economic downturn than to any structural defect in the Federal system. With regard to the flexibility of State and local taxes, in particular, the trend has been towards a more flex-
ible tax system. The Advisory Commission on Intergovernmental Re-

lations recently reported, for example, that in 1972 State governments for the first time collected more revenues from a graduated income tax system than from any other source.

Although these arguments were not lost on Members of Congress, the Revenue Sharing legislation as passed met most of the require-
ments set forth by the initial authors of the proposal back in 1964. Instead of appropriating monies equal to some percent of Federal income tax collections, or personal income, the General Revenue Sharing legislation appropriates a set sum per year, which expands slightly during the period 1972 through 1976. Instead of distributing these funds entirely strings-free, the legislation requires local governments (i.e. as opposed to State governments) to spend General Revenue Sharing funds in each of five general, priority categories, if such funds are going to be used for maintenance and operating expendi-
tures. It also prohibits the use of General Revenue Sharing funds as matching funds for Federal grants-in-aid. Davis-Bacon wage require-
ments must be met if Revenue Sharing funds are used to pay for 25 percent or more of a construction project. Finally, the Act also im-
poses a civil rights provision, and auditing, reporting and notice require-
ments.

The latter requirement—that notice be given to the public con-
cerning the planned and actual use of revenue sharing funds by every State and local government—means that many citizens are being made aware for the first time of the budget process in their local government. As a result, many have also written their representatives in Washing-
ton to complain about budget priorities at the local level. Many such letters have complained, in particular, what the first Actual Use Re-
ports bear out: that a major part of General Revenue Sharing funds have been expended on public safety (23 percent), while other uses such as health (6 percent) and social services for the poor and aged (3 per-
cent have been shortchanged.
SUMMARY OF THE TOTAL AMOUNTS AND PERCENTAGES OF ACTUAL USE FOR GENERAL REVENUE SHARING FUNDS
FOR THE PERIOD JAN. 1, 1972 TO JUNE 30, 1973

<table>
<thead>
<tr>
<th>Category</th>
<th>Total amount expended (millions)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public safety</td>
<td>$655.2</td>
<td>23.0</td>
</tr>
<tr>
<td>Environmental protection/conservation</td>
<td>187.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Public transportation</td>
<td>416.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Health</td>
<td>165.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Recreation/culture</td>
<td>116.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Libraries</td>
<td>18.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Social services for the poor and aged</td>
<td>88.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Financial administration</td>
<td>69.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Education</td>
<td>687.2</td>
<td>24.0</td>
</tr>
<tr>
<td>Multi-purpose/general government</td>
<td>163.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Social development</td>
<td>12.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Housing/community development</td>
<td>26.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Economic development</td>
<td>11.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>177.6</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,817.9</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Note: Percents do not total 100% because of rounding.
Source: U.S. Treasury Department.

Far from citing this as a criticism of the General Revenue sharing concept, we believe that this supports the validity of General Revenue sharing. Whether or not the fiscal reasons for Revenue sharing remain valid in the future, the fact is that in many cases General Revenue Sharing is beginning to serve as a vehicle for citizen action at the local level.

We believe that it is important not only to sustain this aspect of our Federal system but also to renew the Revenue Sharing legislation when it expires at the end of 1976. Like tax revenues, these funds should not be subject to cancellation or sharp curtailment. The certainty of General Revenue Sharing funds is one of the features which makes it work.

We also believe that General Revenue Sharing funds should continue to be as strings-free as possible. In this regard, however, we do support provisions which would encourage more citizen participation in the decision on how to spend General Revenue Sharing monies.

**Special Revenue Sharing**

In the beginning of 1973 President Nixon proposed three Special Revenue Sharing programs: education, law-enforcement and community development. At the same time, he announced that he would achieve Manpower Special Revenue Sharing through administrative regulation. In March, 1974, the President also proposed a Unified

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1 Representative Brown states, "The need for special revenue sharing programs in education becomes obvious on examination of the uses to which state and local governments put general revenue sharing funds in the 18 month period between January 1, 1972 and June 30, 1973. During that time, more than $687 million, or 24% of total general revenue sharing funds expended, went for educational purposes. The need at the local level which this large percentage reflects is one of the strongest possible arguments for comprehensive special revenue sharing programs in education."
Transportation Assistance Program, extending the Special Revenue Sharing concept to urbanized area highway projects, mass transit and other transportation programs. At the end of 1973, after considerable negotiation with Congress, the President signed the Comprehensive Employment and Training Act of 1973, which embodies many of the features of the Manpower Special Revenue Sharing proposal. As these views go to press, the only other Special Revenue Sharing program to have been voted by either House of Congress is a version of the President's Community Development proposal, which passed the Senate on March 11, 1974, as part of S. 3066.

Conceptually, Special Revenue Sharing is designed to replace groups of categorical aid programs, substituting a lump sum to be spent by State and local governments as they wish in the general area of the programs which were cancelled. While we endorse the concept of Special Revenue Sharing, we also believe it inevitable and advisable that certain modifications be made in order that national goals in the various fields covered by the Special Revenue Sharing programs may be implemented.

The difference between the Manpower Act and Special Revenue Sharing in its conceptual form illustrate some of the modifications we have in mind.

First, although Manpower Special Revenue sharing was in principle intended to substitute for virtually all Federal manpower programs, the Manpower Act retains a number of important categorical grant-in-aid programs in their present form (e.g., Neighborhood Youth Corps, public sector jobs, etc.). We believe that where Congress finds a national interest which is embodied in the categorical grant-in-aid program, and which is not likely to be implemented fully if complete discretion is given to State and local officials for spending Special Revenue Sharing funds, that such grant-in-aid programs be preserved. The Neighborhood Youth Corps, for example, corresponding to the national concern over high teenage unemployment rates, is one such program.

A second major difference between the Manpower Act and the principle of Special Revenue Sharing is the participation of the Secretary of Labor. Under the Act, the Secretary must approve plans submitted by State and local governments. Those plans, in turn, must accord with certain goals and principles spelled out in detail in the Act. We believe that such a feature is an indispensable part of Special Revenue Sharing legislation. In effect, it places the accountability for spending in two places. On the one hand, the Cabinet Member concerned should be required to account for the progress of Special Revenue Sharing programs through appearances before Congressional Committees, and on the other hand, local officials should be accountable to local citizenry for the way in which the money is actually spent.

Section 103 of the Manpower Act contains provisions which should ensure that prime sponsors receive amounts equal to at least 90 percent of the area's manpower allotment in the preceding fiscal year. This feature corrects a possible defect in the Special Revenue Sharing concept as initially conceived: that by imposing a formula-type distribution system, some jurisdictions could end up with substantially fewer
funds than they had been receiving in previous years. We support the inclusion of such so-called "hold harmless" provisions in future Special Revenue Sharing bills.

Special Revenue Sharing, when fully implemented, will undoubtedly increase the efficiency of both Federal and local governments. Whatever one can say about the need to establish national standards and to meet national priorities, the fact is that programs conceived in Washington are sometimes poorly adapted to the peculiarities of local conditions. Also, the administrative costs of applying for Federal grants-in-aid have imposed considerable overhead costs on State and local governments. Thus, we strongly support the passage of the remaining Special Revenue Sharing programs.

At the same time, however, it is important that Congress retain its responsibility to see that tax monies collected from our citizens are spent wisely. Even though we may endorse the devolution of decision-making power to the State and local levels, the Administration and the Congress must see to it that national needs are also met. Taken in their entirety, the Administration's Special Revenue Sharing proposals, including the Unified Transportation Assistance Program, would govern the distribution of approximately $9.4 billion annually, if passed as originally proposed. The recommendations we have cited above will, in our view, ensure that the Federal system can be strengthened at the same time that Congress and the Administration maintain their responsibility to utilize our tax monies in the most beneficial way possible for America as a whole.²

²Representative Brown states: "In my opinion manpower special revenue sharing, the Manpower Act of 1973 and categorical grant-in-aid programs all have their place in helping us to achieve various manpower goals, and are in no sense mutually exclusive. However, any trend in the direction of increasing reliance on categorical grant-in-aid programs in attempting to achieve these goals should be watched closely. The whole intent of the revenue sharing initiatives of recent years is to place greater decision making power in the hands of officials at the State and local levels, a goal not generally furthered by heavy reliance on categorical programs."
V. AGRICULTURE

In 1973, agricultural exports played a large role in turning the tide in our merchandise trade balance and making the U.S. a net exporter of goods in 1973, instead of a net importer, for the first time since 1970, as well as increasing net farm income to $26.9 billion, the highest level ever.

Rising incomes both here and abroad, stemming from a world-wide industrial boom, plus the dollar devaluation early in the year, made U.S. goods substantially more price competitive in world markets. World-wide food shortages also contributed heavily to U.S. agricultural exports. Our 1973 agricultural exports were $17.7 billion, almost 90 percent more than in 1972, according to the Department of Agriculture. The price of farm products in the Wholesale Price Index increased by 41 percent over average prices in 1972. These farm products were translated into higher consumer food prices for both foods made from the grains and for meats. In June the President placed a temporary freeze on the prices of beef, hogs and poultry. However, the freeze was lifted as serious shortages developed, as farmers were unwilling to bring products to market at frozen prices.

During 1973 the Administration took a great number of very positive steps towards the goal of making the agriculture sector a non-subsidized, free-market component of our economy. These specific actions, aimed directly at increasing supplies and alleviating the pressures on food prices, as well as reducing government involvement in the agricultural sector, are outlined earlier in these Views in the section on Economic Stabilization. There will be some lag until all of these policies manifest themselves on the grocery shelves, but food prices are expected to level off by the second half of 1974.

The Department of Agriculture has projected an excellent crop this year, given normal weather and other conditions. Large crops are especially important this year if, as expected, world food demands continue to press on U.S. supplies of foodstuffs. Assuming crops large enough to meet domestic needs, Senator Pearson states, "Agricultural exports made it possible for the U.S. to register a trade surplus in 1973 for the first time since 1970. This was enormously beneficial to the entire economy. Because the price tag on imported petroleum products will increase dramatically in 1974, continued exports of agricultural commodities are highly desirable. It would be an economic as well as a diplomatic mistake to embargo agricultural exports except in the case of actual shortages or clearly exorbitant wholesale food prices. Braking domestic farm prices will retard production at a time we seek its expansion. Overall farm profits are up. But farm operation costs are up dramatically. Cattle feeders, for example, are in fact presently suffering enormous losses: Farmers know that costs will not come down; from long experience they also know that the prices they receive are subject to great fluctuation. Ill-conceived actions to lower prices, through export controls, for example, on the one hand, and to remove all minimum price floors on the other hand, would have a demoralizing and economically depressing effect on the agricultural sector. The long range result would be bad for the farmer and the consumer alike."

(119)
enough to meet domestic demand at reasonable prices and sufficient supplies available for the export market, this strong world demand and the exports resulting from it will make a sizable contribution towards offsetting the higher prices which we will be paying for imported energy in 1974.

The availability and price of farm inputs will play a major role in determining what food prices look like at the end of 1974. We have been told by the Department of Agriculture that farm fuel will not be a problem. Although farmers will certainly have to pay more for this production input, the Department of Agriculture has predicted that the petroleum allocation program now in effect will assure that supply problems do not hamper preparation for a good harvest. Agriculture should remain a first priority in allocation of fuels.

Fertilizer prices in 1974 will be high, as there is great demand both here and abroad for fertilizer. We hope that the Cost of Living Council's decision to decontrol the domestic price of fertilizers will help to provide adequate supplies on the domestic market, as the Department of Agriculture has suggested will be the case.

Farm output in 1974 is projected to increase about 5 percent over 1973 levels, allowing for normal weather conditions, according to the Department of Agriculture. Private forecasters are basically in agreement with this projection, although some have reservations about the Department's corn harvest prediction. Production is predicted to be about 235 million tons, an increase of 15 percent over 1973. As Secretary Butz stated in his testimony before this Committee a month ago, this would be enough for projected needs, foreign and domestic, and still allow for recovery of stocks, which are now fairly low.

There has been some concern registered about the prospects for wheat supplies this year (the Department of Agriculture has been monitoring advance export sales of wheat since last summer.) In the opinion of the Department, based on this monitoring and its crop predictions, although wheat stocks may be low this summer, the 1974 wheat crop, which is expected to be about 2.1 billion bushels, 20 percent above that of last year, will move stocks toward adequate levels. In addition to monitoring sales abroad, other steps are being taken to prevent wheat shortages: foreign buyers are being encouraged to postpone purchases until the new crop is available; the Canadian and European governments are being encouraged to increase their supplies for export; and barriers to the importation of wheat into the U.S. have been removed temporarily.

Transportation of perishable goods may cause some problems during the coming year. As it is unlikely that improvements in rail transit can be accomplished in the short run, it is necessary to emphasize improvements in the trucking of perishable goods.

It is important to note that the agricultural problems of 1973 have not worked themselves through the economy as yet. Unfortunately, we are unlikely to see a leveling off in food costs until later this year. In addition, we will be faced with new problems in retail food prices unrelated to the cost of raw agricultural commodities. Rising wages,

1 Senator Javits is particularly concerned with the adverse effect on price and supply of unregulated grain export sales, especially to the Soviet Union.
higher energy costs and transportation charges will continue to have an upward push on food costs throughout 1974.

We are hopeful that the projections of the Department of Agriculture will be met in 1974. We believe that the transition of our farm economy from one of government support and subsidization to an independent sector relying on the market mechanism and independent planning is a great step in the direction of assuring the American people of adequate supplies of food at fair prices, and also assuring the American farmer of the income he deserves. The steps outlined in the section entitled "Economic Stabilization" describe in detail the recent actions taken towards this end.

We are concerned, however, that further unforeseen influences on the agricultural economy, such as occurred last year in the form of heavy export demands on American farm goods due to bad weather conditions abroad resulting in poor crops, the Peruvian anchovy disaster which resulted in drastic shortages of fishmeal, the pressure of expanding world demand for better diets, and the devaluation of the dollar, could influence agricultural prices again in 1974, although hopefully less severely than in 1973. We have seen the devastating effect that these unpredictable conditions can have on food prices in this country and are anxious to take steps to minimize the effect of such occurrences should they repeat themselves.

Therefore, we support legislation which would insure the American consumers of reasonable amounts of raw agricultural commodities at relatively stable prices, unaffected by excessive and inflationary foreign demand. This legislation would determine priorities for the export of U.S. farm foods by instituting a fair and open system for the allocation of America's export surplus, so that countries which have developed a reliance on the American farmer would be able to secure their fair share of American surpluses, and those developing countries which otherwise might lose out in the race for our exports will have an equal opportunity to have their needs met as well.

We believe that the time has come for the Congress to take definitive action towards this goal.
SUPPLEMENTARY VIEWS OF SENATOR JAVITS

Inflation is the number one issue of 1974. In this setting, even if most controls are coming off, an extension of the wage and price control stand-by authority is absolutely essential. It is well nigh irresponsible at a time when the Consumer Price Index is rising at the highest rate in post-war history to abandon the fight against inflation by depriving the Executive Branch of the authority to act swiftly and decisively to roll back unwarranted price increases.

In a larger sense, it should be clear to us that general fiscal and monetary policies alone cannot do the job of both containing inflation and reducing unemployment, and we need to elevate full employment as a concern in and of itself and provide the mechanisms through which to reach such a goal.

Toward that end, I have introduced both a short term and a long term measure:

First, S. 2993, the “Emergency Energy Employment Assistance Act”, to provide standby authority for the President and the Congress to institute an emergency public sector jobs program to cope with the higher levels of unemployment which could come from the mildly restrictive budget policies being proposed by the President for this year and fiscal year 1975, and from the continuing energy crisis.

The $4.0 billion provided for in the bill could fund at least 500,000 jobs, or enough to meet the needs of approximately 1/10 the total number of unemployed persons at the six percent level.

Second, S. 1693, the “Full Employment and Job Development Act”. This bill would establish a “Federal Full Employment Board” as an independent agency in the Executive Branch; specifically, it would recommend to the President and the Congress each year a program to achieve full employment, undertake manpower planning and long-range and short-term surveys to estimate employment needs by sector, and direct the use of supplementary public service employment funds.

Hopefully, these measures along with providing adequate appropriations under the Comprehensive Employment and Training Act of 1973, just recently signed into law by the President, will move us toward the employment policy which we do not now have.

Another element in the inflation/unemployment equation is the necessity to restore free market conditions where those conditions have been distorted through either government policy or the presence of anti-competitive conditions in the private sector. The most blatant example of the lack of free markets is, of course, the history of recent price behavior with regard to oil produced in OPEC countries. However, numerous other examples exist, chiefly in the transportation, construction and health sectors. Government rhetoric speaks of free
markets but in many respects government policy does not follow its own advice. The Administration should set as one of its high priorities in economic policy to identify anti-competitive conditions in the market place and seek to correct them. This will require, among other things, coupling effective anti-trust enforcement, with a rethinking of the anti-trust laws themselves. I have long sponsored legislation for this purpose.

The ending of the Arab oil embargo will provide welcome relief to consumers and sectors of the economy most affected by reduced oil consumption. However, we would be seriously mistaken if we attempted to return to uncontrolled consumption habits that led us originally to dependence on cheap oil from uncertain foreign suppliers. The days of low cost energy seem over. It is essential that the United States pursue policies designed to achieve greater self-sufficiency in energy, with thorough public attention focused on the alternatives available, the costs to the economy and the environment, the equal necessity for conservation and diversification of energy sources. At the same time, the energy problem is too global in scale and too critical to the economic prosperity of all nations to permit strictly nationalistic solutions. For the United States our goal should be a Project Interdependence, which would utilize the resources of all countries interested in common action on energy. U.S. economic strength, the development of a high level of self-sufficiency in energy resources, and the urgent creation of a conservation ethic will prevent our being ever again held hostage to oil producing countries.

Except where I have footnoted particular provisions, the Minority Views to this Report, and the Joint Views on International Economic Policy and Budget Control, accord with my views on the proper course of economic policy over the coming year. However, the Joint Views on International Economic Policy contain some serious omissions and sidestep some of the chief issues which must be faced in 1974.

Particularly important is the issue of the disposition of the dramatic increase in reserves which will be accumulated by the oil producing countries during 1974 and the ensuing years. Economists agree that it is virtually impossible for the OPEC countries to use these additional reserves entirely for domestic development purposes. Thus, these monies will find their way into investments throughout the world. This investment process is inevitable, and the task of policy is to devise ways in which it can be accomplished with minimum strain on the free world economy. These monies are likely to find their way into countries such as the United States, with strong economies least hurt by the increase in oil prices and not into those energy-dependent countries such as Japan and most of the developing world which need the capital most.

The developing world especially is going to find its investment plans and patterns severely altered by the current energy realities. In this setting, it is absolutely essential that the United States, which stands to lose the least from the energy crisis, maintain existing levels of international development aid while it channels new investment capital to the developing countries. In particular, the Congress must act immediately to approve the very liberal and fair terms which are being proposed for the fourth replenishment of the International De-
velopment Association. Those terms, which lower the proportionate U.S. share and allow us to stretch out the payment period for a year longer than the term being agreed to by other countries, is the absolute minimum which common sense and international morality allow. Surely if we expect the new rich oil producing countries to provide substantially increased amounts of development assistance, we must continue at least to do our fair share.
SUPPLEMENTARY VIEWS OF REPRESENTATIVE BROWN

The Impact of Watergate on American Leadership and the Attendant Impact on the Economy

In the past decade or so, polls indicate that there has been a general erosion of public confidence in government, business, labor organizations and most of the other institutions of society. In any consideration of the economy, the ramifications of such disillusionment and their possible adverse impact on confidence and dynamism in our economy cannot be ignored.

The failure of expensive federal social programs of the sixties to resolve the social problems of our society left in their wake much disillusionment over broken political promises. In the seventies, government continued to be unable to control its own appetite for increased spending, but it did not hesitate to turn to price and wage controls in an effort to limit the appetites of others. The resulting failure to harness inflation has left both economic liberals and economic conservatives further disillusioned with both the executive and legislative branches of the federal government.

Some confusion can be expected whenever the Executive branch and the Legislative branch of government are in the hands of different political parties. The honestly divergent views and the more partisan divergent ambitions present in such a situation can create real confusion over the direction of government and raise doubts in the minds of those who control the economic decisions of a free society. Where those decisions become sufficiently hesitant, it is clear that there can be an impact on the economy.

Additionally, because of the war in Vietnam and the doubts it created concerning the economic and political stability of the federal government in the late sixties and the early seventies, his hesitation to make long range economic decisions was also influenced by forces outside the nation.

But more recently the orderly termination of American participation in the war in Southeast Asia, the growing détente with the Soviet Union, the opening of relations with the People's Republic of China, the success of the first stage of the Strategic Arms Limitation Talks and the progress toward SALT II, because encouraging signs for future stability in our foreign relationships and appeared to be laying the foundation for long range orderly expansion of our domestic economy.

And the overwhelming mandate of the 1972 election, which rejected radical change in domestic economic approaches and social policies, set the stage for stability and saw patterns of cooperation emerging in the politically divided federal government. Where previous public and private economic planning had been so tentative, the stabilizing of domestic and foreign affairs began to make planning easier. At this time last year, the long range future directions of federal government looked at great deal more predictable than they had for a decade or so.
Then, that potential predictability of the federal government was knocked into a cocked hat by the evolution of the Watergate matter. Now, Watergate and possible impeachment have intensified the previous uneasiness and uncertainty surrounding federal decisionmaking and patterns of governmental intervention in the private economic sector. The ability of the Executive branch of the government to propose and implement policy decisions has been compromised through the almost hyper-scrutiny of every Executive action by the Congress, the media and the public. Such cynicism is apparently a result of the moral dilemmas posed by Watergate and related matters, the emotional trauma of the assassinations of the sixties and the disillusionment with domestic and international commitments made without the national will or ability to implement them. It is not difficult to understand the cautious and skeptical mood of the country.

It is small wonder that the public questions the economic validity of increased food and fuel prices when members of those industries have been implicated in illegal or unethical behavior while at the same time their industries enjoy sharp profit increases. This distrust manifests itself in such politically emotional but economically ill-advised actions as the recent Congressional effort to roll back crude oil prices to an unrealistic level, a move which could have created further economic chaos in the already chaotic energy field.

Nonetheless, the unending number of challenges to Executive leadership and the frequently indecisive or illogical Congressional actions and reactions have diminished the capability of the federal government to respond decisively and rationally to the daily events and problems confronting our nation. No government can govern as effectively and as efficiently as it should when each decision it makes, no matter how minor it may be, is called into cynical question. The economy is bound to reflect this unhappy condition.

At this stage, it would seem the best contribution the federal governmental establishment could make to the nation and its economy is to try to create some quiet political stability and integrity for itself. Like the constituent who pleaded to the Congressman, “Please don’t do anything more for me, because I can’t afford it, and I can’t tolerate too much more of your help,” the American people may wish to be left more alone in the future than government has been willing to do in the past. All of government’s help may not have given individual citizens much in the way of self-confidence, but neither has it given the individual citizen much confidence in the government.

We seem to be at one of those junctures in our history where the individual citizen must place more reliance on himself than on government. It is time for the citizen to make more of his own decisions and take his own action to solve the moral, social, political and economic problems of our society. As one member of the Committee, I wish to express my confidence in his ability to do that. I should like to see the Committee, the Congress and the institutions of government at all levels make more conscious efforts to free up the individual citizen from the heavy burden of taxes, the enervating hypnosis of controls and the confusing cacaphony of partisanship so that he might manage his own affairs more. Should government choose to try that radical departure, it might have more time and resources to better do the few things it appears to do well.
Long-Term Growth

One further comment should be made on long term growth prospects for the economy. It is noted in the Minority Views that “capital investment still falls short of the levels needed to keep pace with projected levels of domestic demand.” One reason not given (and which I believe is worth noting) is the dis-incentive for establishment of new businesses due to an overabundance of federal law and regulations to “protect” practically everyone from practically everything.

For example, during the past few years, restrictions on wages and prices have served as a hindrance to anyone desiring to go into business. Further, the citizen who establishes his own firm may be immediately faced with the regulations of the Occupational Safety and Health Administration, whose inspectors must cite violations of that agency’s rules on their first visit to a company—no matter what that company’s size, experience or particular problems.

What incentive is there for a small, new company which having gone through the arduous task of gaining the capital necessary to enter the economy, is then faced with the awesome power of the whole federal establishment which could, conceivably, put that company out of business immediately. By no means am I against the goals of many of these federal programs—OSHA, for example—to create safer conditions for workers. But I believe a reevaluation of the means to that end is needed, and a more reasonable and common sense approach must be used by federal agencies and courts in enforcing standards.

The duplication and over-organization of federal controls and restrictions is another deterrent. What individual with limited resources can invest his capital in a stripper well if, for the first two years or so, he is locked into the slow process of receiving environmental clearance, and then, having finally received that clearance from one federal agency, the price he may charge for the oil being pumped from his well is unrealistically controlled by another federal agency?

The impending establishment of a Consumer Protection Agency with its ability to “regulate” the regulatory agencies, will promote further confusion and an attitude of reluctance on the part of an individual to involve himself and his capital in private enterprise. Who can blame the small entrepreneur, with his limited resources, for an unwillingness to subject himself to dual regulation?

It is almost axiomatic that most of America’s great business entrepreneurs of the past—even the recent past—could not have started their ventures which have so blessed our nation with the rewards of initiative and enterprise, if they had had to clear every facet of their undertakings with some agency of government. The implications of that for the worker who wants to become an entrepreneur or the small businessman who wants to expand are painfully clear. The long-range implications for our nation’s economic dynamism are less clear, but no less frightening. At the very least, no new venture can start without first devoting a substantial portion of its resources to a battery of lawyers which has the responsibility of “clearing it with Uncle Sam.” The benefits in that for the legal profession and the bureaucrats are clear, but the benefits for the rest of society are somewhat more obscure.

Although Federal regulation is necessary, it should not be so overwhelming that it discourages and even thwarts long-term growth in small business.
COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by law (Public Law 304, 79th Congress) to report to the Congress by March 1 on the main recommendations of the President's Economic Report. Due to the late filing of the President's Report, the Joint Economic Committee's filing date was extended to March 29. The Committee is also required by law to make a "continuing study" of the economy. This report is intended to serve as a guide to the several committees of the Congress dealing with legislation relating to economic issues.

The work of the full Committee and the Subcommittees for the past year is summarized below:

FULL COMMITTEE

January 1973 Economic Report of the President:

On February 6 the Committee began 10 days of hearings in its annual review of the President's Budget and Economic Report with testimony from the Chairman of the Council of Economic Advisers. Additional testimony was received from the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller General of the United States, as well as economic experts from universities and research groups, a Mayor, and private economists. The rise in interest rates was a matter of particular concern. Other problems addressed included continuing high unemployment, accelerating inflation, damaging budget cutbacks in the most important social programs, and the continued unsatisfactory balance-of-trade position.

The 1973 Joint Economic Report:

The Joint Economic Committee's Annual Report (H. Rep. No. 93-90) together with a statement of Committee agreement and minority and supplementary views, was filed with the Congress on March 26, 1973, the March 1 deadline having been extended. The final volume of the three-part printed hearings contained invited comments from leaders of agriculture, banking, business, labor, and private research groups commenting on the President's Report.

Price and Wage Control: An Evaluation of Current Policies:

Eleven studies analyzing various aspects of price and wage controls were prepared at the special request of the Committee and printed as part of the record of the hearings held in November 1972. Published as Part 2—Studies of Selected Aspects, ten of the studies analyzed specific problems arising during Phase II of the Price-Wage Controls and the eleventh was an historical account of anti-inflation efforts.
since the passage of the Employment Act of 1946. The study dealt with specific price and wage problems which any new policy would have to take into account.

*Soviet Economic Prospects for the Seventies*

A June compendium prepared for the Joint Economic Committee, drawing on an international group of academic and government analysts, constitutes the most contemporary assessment of Soviet Economic performance that exists outside of the Soviet Union. The study is the most comprehensive of a series of assessments of Communist economics released by the Committee, dating from the mid-1950s.

*Soviet Economic Outlook*

Hearings were held in July based on the above study. The prospects of new joint ventures between the United States and the Soviet Union highlighted the need for more up-to-date information. Witnesses contributing to the hearings included representatives from the Departments of State and Commerce, a former U.S. Ambassador to the USSR, academicians, and representatives from banking and industry.

*The 1973 Midyear Review of the Economy*

Deterioration in the economic situation since the Committee's annual hearings in February necessitated additional hearings in July, August, and October. Interest rates skyrocketed, credit tightened, the rate of growth and of real output was down below potential indicating a rise in unemployment, food prices soared, inflation increased. Testimony was received from distinguished private economists as well as from representatives from the Council of Economic Advisers and the Federal Reserve Board, concentrating on the Economic Outlook—Domestic and International—and the Budget Outlook and Priorities. The October portion of the hearings focused on the inflation outlook and price-wage controls, Phase IV of which had then been in operation for two months.

*Economic Problems of Women*

The Joint Economic Committee held hearings in July, chaired by Congresswoman Martha Griffiths, to gather factual data and expert opinions necessary to formulate economic policy which would be equitable to women. The areas covered included Federal efforts to end sex discrimination in employment; women's access to credit and insurance; features of Federal income, estate, and gift tax laws which have a disparate impact on women; treatment of women under social security and private pension plans; sex discrimination in unemployment insurance, veterans programs, and public assistance. Seven days of hearings included testimony from the Council of Economic Advisers; the Departments of Health, Education, and Welfare, and Labor; the former Commissioner of the Social Security Administration; representatives from six universities; the Equal Employment Opportunity Commission; the Commissioner of Insurance from the State of Pennsylvania; the National Welfare Rights Organization; the Association of American Colleges; the Center for Women Policy Studies; the New York Civil Liberties Union; the Center for Na-
tional Policy Review; and Brookings Institution. Part 3 of the printed record of the hearings contains statements submitted for the record.

Lowering the Permanent Rate of Unemployment

Professor Martin Feldstein, under contract with Data Resources, Inc., prepared in October 1972 a study for the Committee of the possibilities of reducing unemployment to 2 percent. Three days of hearings were held at that time. The Committee then invited five distinguished experts to prepare written comments on the study and hearings. This volume was released in September 1973, and thus brings together in one volume a range of viewpoints on important and controversial aspects of employment policy.

A Reappraisal of U.S. Energy Policy

Three Subcommittees, Consumer Economics, International Economics, and Priorities and Economy in Government, issued a report in March of 1974 based on extensive hearings held by the three subcommittees relative to energy matters during the past year. In addition to calling for a rollback of oil prices and the elimination of tax loopholes for the oil industry, the report also stresses the need for more effective antitrust laws and enforcement and for reform of the present "bonus bidding" system for Federal mineral leases to permit greater competition in developing publicly owned resources. The report reviews a range of energy policy issues from allocation and price controls to long-run efforts for conservation and output expansion, as well as examining conditions in the world oil market.

Energy hearings held by the three Subcommittees are described under the appropriate Subcommittee headings.

SUBCOMMITTEE ON ECONOMIC PROGRESS

A Proposal for Achieving Balanced Growth and Development

Published in February, the volume contains suggested provisions for establishing a national capability for better achieving balanced growth and development. It is intended to provide the basis for analysis and discussion of the problems which confront the United States with respect to growth and development, as well as the means by which these problems can be approached and resolved.

The Energy Outlook for the 1980's

A December staff study sets forth several measures that could be adopted by the Federal Government to increase U.S. energy production in the 1980's. This is the first part of a two-volume study being prepared for the Subcommittee. The second volume will look into the possibility of developing and enhancing sources such as nuclear fusion, solar energy, tidal energy and hydrogen, among others. The study is part of the Subcommittee's continuing review of energy started several years ago.

Members of the Subcommittee on Economic Progress are Representative Wright Patman, Chairman; Representatives Henry S. Reuss, Martha W. Griffiths, Clarence J. Brown, and Ben B. Blackburn; Senators William Proxmire, J. W. Fulbright, Lloyd M. Bentsen, Jr., James B. Pearson, and Richard S. Schweiker.
SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT

Current Labor Market Developments

An early January hearing continued the Committee's series of hearings begun in April 1971 on the employment-unemployment situation.

At the January hearing, the Commissioner of the Bureau of Labor Statistics appeared to review labor market conditions and price developments during 1972. In May 1973 the new Secretary of Labor, appointed from labor’s own ranks, was invited to testify but was unable to do so. The Subcommittee intends to continue this overview.

Prior to these regular hearings, the Department of Labor had been holding monthly press conferences at which technicians carefully explained to the public what was happening in the labor markets. These briefings were discontinued by the Labor Department.

The Acquisition of Weapons Systems, Part 6

The Subcommittee continued its investigation into the acquisition of weapons systems with a hearing held in early January into the demotion of Gordon W. Rule, formerly Director of the Procurement Control and Clearance Division, Naval Material Command, in an effort to determine whether the demotion of Mr. Rule was a result of his candid testimony before the Committee and also to determine its legality. In addition to testimony from Mr. Rule, the Committee heard from a Navy official and the General Counsel of the Civil Service Commission.

Mr. Rule was later reinstated to his former position.

The Acquisition of Weapons Systems, Part 7

A staff study was released in November demonstrating the dramatic price reductions on defense contracts through the use of competitive practices. The study was followed by three days of hearings in mid-November which discussed in addition improprieties and kickbacks in subcontracting. The General Accounting Office was represented by the Comptroller General of the United States and the Assistant Comptroller General, who was formerly Assistant Secretary of Defense. Testimony was also received from two Department of Defense Assistant Secretaries, a Political Science professor, Mr. A. E. Fitzgerald who was formerly Deputy for Management Systems in the office of the Assistant Secretary of the Air Force, and from a representative with the Center for Defense Information.

The Economics of Federal Subsidy Programs

Part 6—Transportation Subsidies.—Five studies evaluating Federal transportation subsidies that now cost the taxpayers and consumers about $7 billion a year were released in March. The Subcommittee stressed that substantial savings could be achieved and services improved by reforming transportation subsidies.

Part 7—Agricultural Subsidies.—In April the Subcommittee released a volume dealing with agricultural subsidies, the seventh in the series concerning the Federal subsidy system. Five papers dealt with agricultural developments in the past year and legislative changes the Congress should consider; distributional implications of agricultural
commodity programs and the impact of farm programs on rural poverty; the cotton program and its effects on farmers' incomes and production; income distribution effects of all other major agricultural commodity programs; and soil and water conservation subsidies.

Housing Subsidies and Housing Policy

A 1972 compendium examined housing subsidies and stressed the need for reform. The compendium was followed by hearings in November of 1972, and a report based on the compendium and the hearings was issued in March of 1973. Housing program mismanagement and fraud and misrepresentation on the part of speculators and housing agency employees as well as lack of adequate documentation of the deficiencies in housing programs were stressed in the report. Recommendations for meeting higher national housing goals with higher quality and at considerable saving were also made.

National Priorities and the Budgetary Process

Hearings on the 1975 Budget were held in April to examine the need for Congress to develop its own procedure and capabilities for analyzing economic data and determining budgetary requirements prior to the submission of the President's Budget. Testimony was received from Administration and congressional representatives, academic experts and research analysts.

Executive Compensation Rules

The Director of the Cost of Living Council testified in June regarding rules and regulations pertaining to executive compensation and corporate disclosure under Phase II and III controls. Also testifying were Ralph Nader, consumer advocate, and Robert Townsend, formerly Chief Executive Officer of Avis.

Federal Statistical Programs

June hearings were held on the status of government statistical programs and the lack of professional qualifications of proposed appointees to head the Bureau of the Census and the Social and Economic Statistics Administration. The delay of the Administration in appointing a new, highly qualified Commissioner of the Bureau of Labor Statistics was also discussed. Three experts in the fields of statistics and economic analysis presented their views.

Federal Productivity

Hearings were held in December, continuing the Subcommittee's investigation begun in 1972 on the need to improve national productivity. The highlight of the December hearing was the Comptroller General's review of current efforts to assay productivity in government service. The Deputy Mayor of New York City discussed this problem from the local government viewpoint. A staff official of the National Commission on Productivity discussed the general role of the Government in its effort to improve productivity at Federal, State, and local levels.

Resource Scarcity, Economic Growth, and the Environment

December hearings addressed fundamental questions of the relationship among economic growth, resource availability, and the qual-
ity of the environment. These hearings also provided an opportunity to review recommendations for a U.S. materials policy. Testimony was received from the former Executive Director of the National Commission on Materials Policy, the Chairman of the Environmental Studies Board of the National Academy of Science, the Chairman of the Council of Environmental Quality, and academic experts in the area.

The 1975 Budget: An Advance Look

A study prepared by the Committee staff and the Congressional Research Service of the Library of Congress, with the assistance of the staff of the Joint Committee on International Revenue Taxation, was released in December. Analytic in nature and containing no policy recommendations, but identifying certain policy options with respect to the 1975 budget, the study is an attempt to assist Congress in reasserting its proper role in the budget-making process.

Energy Statistics

Two days of hearings were held in January 1974 because of the widespread concern about the validity of energy statistics. Administration officials, energy experts, and a consumer advocate testified concerning the statistical bases used for projections of energy shortfalls and for allocations of what were assumed to be critically short supplies of oil and gas. On the second day of the hearings, Senator Gaylord Nelson from Wisconsin testified, sharing with the Subcommittee his findings as a result of work unearthing various facets of corporation secrecy done in the Senate Small Business Subcommittee on Monopoly.


SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

The Subcommittee continued its study of the effect of economic conditions and developments in South America on U.S. policy toward Latin American countries.

Members of the Subcommittee on Inter-American Economic Relationships are Senator John Sparkman, Chairman; Senators J. W. Fulbright, Abraham Ribicoff, Lloyd M. Bentsen, Jr., James B. Pearson, and Richard S. Schweiker; Representatives Martha W. Griffiths, William S. Moorhead, Barber B. Conable, Jr., and Ben B. Blackburn.

SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

At the onset of the First Session of the 93d Congress, the Joint Economic Committee merged the Subcommittee on Foreign Economic Policy and the Subcommittee on International Exchange and Payments into a new subcommittee entitled the Subcommittee on International Economics.
How Well Are Fluctuating Exchange Rates Working?

Hearings were held in June to examine two issues—whether the introduction of the fluctuating rate mechanism facilitated or impeded international trade and investment and what sort of guidelines should be established to regulate central bank intervention in exchange markets. The Subcommittee heard from a panel of officers from various sizes and types of corporations dealing with problems of financing international trade and investment; chief exchange traders from several major commercial banks; international economists; as well as the Under Secretary of the Treasury for Monetary Affairs and the Chairman of the Board of Governors of the Federal Reserve System.

A report on the hearings was issued in August analyzing fixed versus fluctuating exchange rates in terms of market stability, impediments to international trade and investment, competitive exchange rate movements, and domestic economic policymaking.

Making Floating Part of a Reformed Monetary System

A report released in January 1974 recommends that for the foreseeable future, the dollar should continue to float in exchange markets. The report was released for consideration of the U.S. officials attending the January 1974 meeting of the Committee of Twenty in Rome, and was based on joint hearings held in November by the Subcommittee and the House Committee on Banking and Currency Subcommittee on International Finance. The hearing constituted part of the International Economics Subcommittee’s periodic reconsiderations of how well the fluctuating exchange rate mechanism has been working. Both subcommittees also wished to evaluate developments during the International Monetary Fund and World Bank annual meetings held in Nairobi, Kenya, in September of 1973. Testimony was received from the Under Secretary of Treasury for Monetary Affairs and the Chairman of the Board of Governors or the Federal Reserve System, as well as from an official of the First National City Bank of New York.

Energy Imports and the U.S. Balance of Payments

Three days of hearings were held in November to investigate the costs and benefits of our oil import policies. Consideration was given to the effect of the Arab oil embargo on the United States; the need to develop new sources of energy and to curtail wasteful consumption; reassessment of an import policy to avoid undue reliance on insecure foreign sources and to minimize overall energy costs. In addition to addressing their testimony to the above areas, academicians, independent consultants, oil industry executives, and research economists in the area were asked to consider whether without adequate external receipts from increased export sales, profit remittances, and inflows of foreign capital, the drain on our balance of payments would prove disastrous.

The Economic Impact of Petroleum Shortages

Drawing together the best estimates of the Administration, industry, labor, and academia to determine how serious the effects would be on employment and growth both for the economy as a whole and in specific industries and regions, the Subcommittee held three days of hearings in December to consider the economic impact of petroleum shortages both domestic and international.
The first two days of the hearings considered whether coupon rationing or higher taxes would be more effective in cutting gasoline consumption, and allocation programs for fuel oil and propane. Appropriate economic policies to ease adjustment and to minimize economic dislocation in the event of a major economic slowdown in 1974 were discussed. The last of the three days considered the effects on other major industrial nations of cutbacks in shipments to Europe and Japan by Arab oil producers. The desirability and feasibility of a counter-embargo on food and manufactured goods against countries prohibiting oil shipment to the United States were evaluated.

Testifying were representatives from the Council of Economic Advisers, Federal Energy Office, research economists, academicians, and State and local government officials.


**SUBCOMMITTEE ON FISCAL POLICY**

*Study of Welfare.*—The Subcommittee continued its study of public welfare programs begun in 1971. This study has been a review of welfare problems and issues which cut across the many individual programs; it analyzes the total impact of these programs in combination with each other.

Included in the scope is the multitude of Federal and non-Federal programs which directly or indirectly supplement privately earned incomes (either through cash grants or in-kind goods and services). The study has examined the administration of these programs, their effectiveness in achieving their objectives, and the effects of welfare programs in combination on family structure, financial need, employment, the structure of the labor market, and related issues.

The Subcommittee has released 10 separate volumes and related materials during the year. These publications in the series *Studies in Public Welfare* include work done by the staff as well as contributions from outside experts. A brief description of each publication follows.


This volume was the second in a three-part series of analytical studies on welfare administration. The papers in Part 2 dealt with administration issues in the context of the problems raised by participation of Federal, State, and local authorities in running many welfare programs. Specifically, the four papers considered the historical Federal and State interest in welfare administration, the legal problems the Federal Government has faced in implementing Federal law at the State level, the program consequences of the many changes in the administration of aid to families with dependent children from 1967 to 1971, and the relationship of the cash assistance
welfare program to the provision of social services to welfare recipients.


The third volume in the three-part administration series draws on the experience acquired in the various income maintenance experiments funded by Federal agencies. The three authors, all of whom were deeply involved in the design, operation, and analysis of the experiments, relate these experiences to the problem of administering a national cash assistance program. The first paper considers the overall problem of establishing a national system for administering a program such as those experimented with in New Jersey and elsewhere. The second paper uses the experimental data to analyze the cost and other implications of different ways to account for recipient income and to adjust payments to recipients. The third paper explores the alternatives, and their pros and cons, for dealing with the special problems posed for income maintenance administration by the self-employed, especially farmers.


This study was prepared by Subcommittee staff based on data collected by the General Accounting Office at the Subcommittee's request. The GAO drew a sample of households from six low-income areas scattered across the country. For each household, a search was made of agency records to determine what benefits if any were being received from the many income maintenance programs. An analysis of the findings is presented. In addition, more detailed data tabulations were published on August 6, 1973 (Additional Material for Paper No. 6: *How Public Welfare Benefits are Distributed in Low-Income Areas*).


In July, 1972 a conference on integrating income maintenance programs was held at the Institute for Research on Poverty of the University of Wisconsin, sponsored jointly by the Subcommittee and the Institute. Conferrees presented and discussed papers on how to better coordinate the multitude of programs comprising the nation's public welfare system. Paper No. 7 contains several of the papers from this conference. Several programs including medicaid, medicare, child care, unemployment insurance, social security and public assistance are analyzed in the context of the existing system and of three basic welfare reform alternatives: the family assistance plan, proposed by the Administration in 1971, a demogrant available to everyone, and the Senate Finance Committee's 1972 proposal for a work bonus and public employment.


This comprehensive analysis of nine program areas in New York City is a major contribution to the understanding of the interrelationship of Federal, State and city programs, the distribution of benefits to low- and middle-income families, effects on work incentives, and the administrative complexities of these programs. The programs studied
include public assistance, food stamps, school lunches, medicaid, dental care, publicly subsidized housing, day care, foster care and homemaker services, and veterans' pensions. The report documents the inequitable distribution of benefits and the impact of combined benefits on family income and on incentives to increase income.


This volume contains three studies of major reform alternatives presented and analyzed by outside experts. The program types include demogrant plans, public employment, and earnings subsidies.


This staff study was undertaken in order to provide background information for estimating the impact of the Supplemental Security Income (SSI) program and to consider issues of coordination with other benefit programs which will be accentuated when the new national SSI program is fully implemented. Data obtained from 100 cities and counties administering Old Age Assistance programs (pre-SSI welfare programs by the aged) describes actual amounts of benefits available from Old Age Assistance, food stamps or commodities, medicaid, and public housing. This provides a basis for estimating the impact of SSI on decreasing income disparities among States and the extent to which state supplements are needed if previous income levels are to be maintained. The report includes a detailed description of SSI eligibility conditions and treatment of income, and provision for State supplementation. Since one out of five social security beneficiaries will be eligible to receive SSI, particular attention is given to the interrelationships of social security with SSI. Issues related to the benefit structure of social security, financing, and impact of the combined programs on dual beneficiaries are discussed.


This study addresses such questions as: To what extent do private pensions influence early retirement? Do lengthy job tenure requirements for attaining vesting rights impede worker movements from one job to another? The study concludes (1) that the expansion of private pensions has contributed and will continue to contribute to moderate declines in labor force activity of older workers; and (2) that vesting provisions have not caused and probably will not cause noticeable declines in labor mobility.


This volume includes papers examining the influence of welfare payments on family stability, the causes of growing illegitimacy and marital disruption, and the factors responsible for the dramatic growth in welfare caseloads between 1967 and 1971. Among the important findings are (1) that higher aid-to-families-with-dependent-children payments in an area did appear to cause higher rates of family instability; and (2) that increased participation in welfare programs by previously eligible families was largely responsible for the rapid caseload growth between 1967 and 1971.

This volume includes papers dealing with government policies relevant to family structure, such as public welfare benefits and child support collection activities, and papers examining how low-income persons combine to form households and to share income.

Presentations by Subcommittee Staff

Various presentations related to the Subcommittee's study of public welfare programs were made by Subcommittee staff during the year. Subcommittee staff members spoke to the National Meeting of State Directors of Unemployment Insurance, the Annual Agricultural Outlook Conference sponsored by the U.S. Department of Agriculture, the Carnegie Council on Children, the American Economic Association Annual Meeting, Wabash College, American University, the Food and Nutrition Service of the Department of Agriculture, the Public Welfare Staff Seminars sponsored by the Urban Institute, Congressional employees, the Grove Conference on Family Life, the National Conference of State Legislators, the Friend's Committee on National Legislation, and the Brookings Institution Conference for Federal Executives.

Staff Changes

During 1973 the following staff changes were made:

Departed Staff: Vivian Lewis, Mary Beth Curry, and Trina Sparacino.

Joined Staff: Mollie D. Rivers, Martha G. Grundmann, and Vee Burke.

Members of the Subcommittee on Fiscal Policy are Representative Martha W. Griffiths, Chairman; Representatives Richard Bolling, Hugh L. Carey, William B. Widnall, and Barber B. Conable, Jr.; Senators William Proxmire, Abraham Ribicoff, Lloyd M. Bentsen, Jr., Jacob K. Javits, and Richard S. Schweiker.

SUBCOMMITTEE ON URBAN AFFAIRS

The relationship between effective regional planning and various Federal aids available to localities continued to be of concern to the Subcommittee as part of its study of regional and urban economic problems.

Members of the Subcommittee on Urban Affairs are Representative William S. Moorhead, Chairman; Representatives Richard Bolling, Martha W. Griffiths, Hugh L. Carey, William B. Widnall, Clarence J. Brown, and Ben B. Blackburn; Senators Abraham Ribicoff, Hubert H. Humphrey, Lloyd M. Bentsen, Jr., Jacob K. Javits, and Charles H. Percy.

SUBCOMMITTEE ON CONSUMER ECONOMICS

The Cost of Living

At hearings in March the Chairman of the Council of Economic Advisers and the Director of the Cost of Living Council presented the Administration's interpretation of recent cost of living develop-
ments and the Administration’s intentions to protect consumers from unacceptable cost of living escalation.

April hearings concerned particularly with the meat price ceiling considered whether the Administration should abandon Phase III and return to a strengthened version of Phase II, with direct cost pass-through, public hearings, public disclosure of data, price reductions where productivity gains permit, and effective wage guidelines. Housewives, consumer spokesmen, agricultural experts were invited to testify. In addition, the Chairman of the Subcommittee sent a letter which was released with the announcement of the hearings, to the Secretary of Agriculture requesting an accounting of Department policies, a detailed farm and food price forecast for the balance of the year, and an appraisal of the meat price ceiling.

John A. Schnittker of Schnittker Associates, Washington, D.C., an economic consulting firm, prepared a study in consultation with the Subcommittee staff, and also testified at the hearings. The 1972-73 food price spiral study was released in conjunction with the April hearings and confirms that skyrocketing food prices are largely the result of food management policy errors made by the Department of Agriculture, and that the consumer was caused to bear the burden and the farmer the blame for this mismanagement.

Consumer Related Budget Cuts

The Office of Management and Budget justifications for the 108 budget cuts representing the Administration’s spending reform package were analyzed in a staff study released in mid-April. Hearings were held concerning the impact of the cuts in the areas of community development and housing, health, agriculture, and manpower. The Director of the Office of Management and Budget, the Comptroller General of the United States, the Mayor of Milwaukee and academicians assisted the Subcommittee in its evaluation.

The Gasoline and Fuel Oil Shortage

Three days of hearings, May 1 and 2, and June 2, were held on the developing gasoline shortage, seeking to sort fact from fiction. Questions considered were whether rationing or allocation would assure fair distribution and what conservation measures could be adopted. The hearings in May were held in Washington, D.C., and the June 2nd hearing was held in Minneapolis, Minnesota, at which Congressional Representatives from the State of Minnesota testified and presented statements for the record. Testimony was also received from State officials and oil company representatives, as well as research analysts and officials concerned with civil defense, public safety, fuel economy, and transportation.

Industrial Prices

May hearings investigated price increases in industrial commodities and the need to halt escalating inflation on nonfood prices. Discussions were held to examine the outlook for nonfood prices and the need for stronger price-wage policies, as well as the future of steel prices. Witnesses included members of the academic community and an economic consulting organization.
Medical Policies and Costs

Hearings in mid-May criticized the Administration's failure to establish an overall national health policy. An official of the Department of Health, Education and Welfare testified, along with research economists and members of the medical community.

Housing Costs

In the first of a two-day hearing in May, four distinguished private experts testified on recent price increases and prospects for the months ahead in the housing area. The second day of the hearings elicited testimony from the Chairman of the Council of Economic Advisers and the Director of the Cost of Living Council. Among other issues, the need to provide decent housing in the current inflationary environment was considered.

Heating Oil Shortages

September hearings inquired into the prospects for solution of the potential severe heating oil shortages during the coming winter.

Department of the Interior, Environmental Protection Agency, and Cost of Living Council officials testified, along with the Governor of Minnesota and representatives from Exxon and the Oil Heat Institute of Long Island. Tight supplies, prolonged cold weather and bottlenecks in ports, refinery breakdown, fuel allocation policies, oil price increases, price control regulations and relaxation of environmental standards were discussed.

A staff study released just prior to the hearings, entitled "Prospects of Distillate Oil Shortage for Winter 1973/74," contains an analysis of the distillate oil market, background information on origins of the oil shortage in the United States, and the nature of factors that could increase fuel oil demand or constrict supply and the pattern and extent of shortages that could result were analyzed in the staff study.

Food and Other Consumer Price Increases

The August Consumer Price Index increase of approximately 2 percent and the August food price increase of roughly 6 percent prompted hearings in September to assess the impact on consumers of price increases and the adequacy of the anti-inflation program.

Testifying were representatives from the Council of Economic Advisers, The Brookings Institution, a consulting food economist, and a professor from the University of Michigan. Questions considered were how high rates of inflation have affected consumers' standards of living and how inflation may affect future economic behavior on the part of consumers and the overall performance of the economy.

Energy Conservation

A hearing was held in November to determine the role of energy conservation in relieving the Nation's fuel shortage. Testimony on conservation proposals and other possible measures and possible abuses or profiteering was received from the Energy Policy Office, the Director of the Ford Foundation Energy Policy Project, the Department of Interior Office of Energy Conservation, an oil company
STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

The staff, in addition to conducting formal studies and arranging hearings for the Committee and Subcommittees, participated in discussions of economic problems and research techniques with outside groups. The following list illustrates the nature of these activities in which the staff took part in 1973:

- American University Association for Public Program Analysis.
- Brookings Institution Conferences on Economic Activity and Staff Seminar on Foreign Economic Policy and East-West Trade.
- Data Resources, Inc.
- Engineering Foundation Conference on Technology and Social Institutions.
- Federal Reserve Bank of Boston Conference on Credit Allocation Techniques and Monetary Policy.
- National Academy of Sciences Meeting on National Materials Policy.
- National Science Foundation Rann Conference on Energy, Environment and Productivity.
- University of California at Los Angeles, Conference on Full Employment.
- University of Michigan Conference on Economic Outlook.

Addresses or papers presented to the following:

- American Management Association.
- Federal Executive Seminar, Kings Point, N.Y., Oak Ridge, Tenn., and Berkeley, Calif.
- International Press Institute Common Market Conference.
- National Economists Club.
- National Legislative Conference.
- National War College.
- Southern Economic Association Annual Meeting.
- University of California Conference on Full Employment.
- University of Kentucky Energy Resource Conference.
- University of Missouri.
In late May and early June a member of the staff participated in a congressional staff trip to Brussels sponsored by the European Communities and, while in Europe, traveled to London to study in particular British participation in the EEC. In September, the staff Director and one member each from the majority and minority staffs attended the annual meetings of the International Monetary Fund and the World Bank, held in Nairobi, Kenya. In December a staff member traveled to Tunisia with a group of academicians, congressional staff, and members of the press, at the invitation of the Tunisian Government.

Conferences were held with government officials or groups of foreign visitors seeking information on the activities of the Joint Economic Committee and the performance of the American economy representing the following nations:

- France, Germany, Great Britain, Italy, and Japan, as well as members of the Commission of the European Economic Communities.

The Executive Director taught a graduate course at George Washington University.

**Student Interns**

The Committee continued its participation in the student intern program by having college students working in the committee offices during the year.

**CHANGES IN COMMITTEE STAFF**

During the year Juanita L. Entrekin, publications clerk, Jean Reynolds, receptionist-secretary, and William M. Woodard, staff assistant, retired. Additions to the staff included Arthur J. Keeffe, professional staff member, Sarah Jackson, international economist, John D. Raffaelli III, intern, Virginia Ramos, secretary, Kathleen B. Watters, receptionist, and Larry M. Yuspeh, professional staff member. Caterina C. Sparacino left the staff of the Fiscal Policy Subcommittee to become financial clerk for the Joint Economic Committee.

**DISTRIBUTION OF COMMITTEE PUBLICATIONS**

In 1973 the Joint Economic Committee distributed over 275,000 copies of current and previous years' publications to individuals, libraries, and organizations the world over. Since the time of our last Annual Report the committee has released 26 reports and studies and has printed 16 sets of hearings, for a total of 42 publications.

Also during the past year the Superintendent of Documents sold over 123,000 copies of current and previous years' publications. Economic Indicators, which are sold by monthly subscription through the Superintendent of Documents, were received by almost 12,000 subscribers in 1973.

In addition there are over 700 depository libraries in major universities throughout the country that are mailed by the Government Printing Office the committee prints that are released by the Joint Economic Committee.
When the Committee organized for the 93d Congress, first session, the responsibilities of the Subcommittee on Economic Statistics were merged with those of the Subcommittee on Priorities and Economy in Government. The Subcommittees on Foreign Economic Policy and International Exchange and Payments were combined to create a Subcommittee on International Economics. In light of the Committee's continuing concern about how economic policy affects the consumer, a Subcommittee on Consumer Economics was established. At the beginning of the 93d Congress, second session, a Subcommittee on Economic Growth was established to look into the uncertainties facing our longer term economic growth.

The Subcommittees of the Joint Economic Committee for the 93d Congress, second session, are:

**Economic Progress**

**Representatives**
- Wright Patman, Texas, *Chairman*
- Henry S. Reuss, Wisconsin
- Martha W. Griffiths, Michigan
- Clarence J. Brown, Ohio
- Ben B. Blackburn, Georgia

**Senators**
- William Proxmire, Wisconsin
- J. W. Fulbright, Arkansas
- Lloyd M. Bentsen, Jr., Texas
- James B. Pearson, Kansas
- Richard S. Schweiker, Pennsylvania

**Priorities and Economy in Government**

**Representatives**
- William Proxmire, Wisconsin, *Chairman*
- Martha W. Griffiths, Michigan
- J. W. Fulbright, Arkansas
- Hubert H. Humphrey, Minnesota
- Charles H. Percy, Illinois
- James B. Pearson, Kansas
- Richard S. Schweiker, Pennsylvania

**Senators**
- Wright Patman, Texas
- John Sparkman, Alabama
- Hugh L. Carey, New York
- Barber B. Conable, Jr., New York
- Clarence J. Brown, Ohio
- Ben B. Blackburn, Georgia

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INTER-AMERICAN ECONOMIC RELATIONSHIPS

SENATORS

John Sparkman, Alabama, Chairman
J. W. Fulbright, Arkansas
Abraham Ribicoff, Connecticut
Lloyd M. Bentsen, Jr., Texas
James B. Pearson, Kansas
Richard S. Schweiker, Pennsylvania

REPRESENTATIVES

Martha W. Griffiths, Michigan
William S. Moorhead, Pennsylvania
Barber B. Conable, Jr., New York
Ben B. Blackburn, Georgia

INTERNATIONAL ECONOMICS

REPRESENTATIVES

Henry S. Reuss, Wisconsin, Chairman
William S. Moorhead, Pennsylvania
Hugh L. Carey, New York
William B. Widnall, New Jersey
Barber B. Conable, Jr., New York
Clarence J. Brown, Ohio

SENATORS

John Sparkman, Alabama
J. W. Fulbright, Arkansas
Abraham Ribicoff, Connecticut
Hubert H. Humphrey, Minnesota
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Charles H. Percy, Illinois
James B. Pearson, Kansas

FISCAL POLICY

REPRESENTATIVES

Martha W. Griffiths, Michigan, Chairman
Richard Bolling, Missouri
Hugh L. Carey, New York
William B. Widnall, New Jersey
Barber B. Conable, Jr., New York

SENATORS

William Proxmire, Wisconsin
Abraham Ribicoff, Connecticut
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Richard S. Schweiker, Pennsylvania

URBAN AFFAIRS

REPRESENTATIVES

William S. Moorhead, Pennsylvania, Chairman
Richard Bolling, Missouri
Martha W. Griffiths, Michigan
Hugh L. Carey, New York
William B. Widnall, New Jersey
Clarence J. Brown, Ohio
Ben B. Blackburn, Georgia

SENATORS

Abraham Ribicoff, Connecticut
Hubert H. Humphrey, Minnesota
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Charles H. Percy, Illinois
### ECONOMIC GROWTH

#### SENATORS
- Lloyd M. Bentsen, Jr., Texas, *Chairman*
- William Proxmire, Wisconsin
- Abraham Ribicoff, Connecticut
- Hubert H. Humphrey, Minnesota
- Jacob K. Javits, New York
- Charles H. Percy, Illinois

#### REPRESENTATIVES
- Henry S. Reuss, Wisconsin
- William S. Moorhead, Pennsylvania
- William B. Widnall, New Jersey
- Barber B. Conable, Jr., New York