

## Chapter 3

### Policies for the Future

**A** RAPID growth of the labor force and a significant improvement in the Nation's productivity will provide the opportunity and also a challenge to raise output in the next decade at a still higher rate than has been experienced in the years since the Employment Act was passed. Success in accelerating production and providing the needed employment opportunities will depend, of course, on both private and public policies. The gains made in recent years in containing inflationary pressures and stabilizing prices and in avoiding the development of other imbalances in the economy provide a good foundation for achieving the desired rapid and sustainable economic advance. In some areas, however, new Government policies will be needed and existing legislative provisions will have to be strengthened.

It is impossible to say in advance how large the increase in the labor force will actually be, but it is clear that an unusually large number of younger persons will reach working age in the next decade. Indeed, the annual increase in the labor force may average as much as 1.4 million during the decade, compared with an annual growth of 850,000 in recent years. If it is assumed that in the next ten years the average unemployment rate will be equivalent to that for the past decade and that the size of the Armed Forces will remain unchanged, an annual increase of 1.4 million persons in the labor force would raise the number of persons in civilian employment in 1970 to more than 80 million, or 20 percent above the present employment figure.

A gain of this magnitude in employment would imply a still larger advance in output as productivity continues its historic upward course. Our output per man-hour is now substantially higher than that of any other industrialized economy in the world, and it has tended to increase at a long-term average annual rate of 2 percent or more. There are forces at work that could speed the actual gain in the next 10 years. The cost pressures of our enterprise system today and the intensive competition faced in world trade provide spurs to the more rapid achievement of greater productive efficiency. Continuing high expenditures on new plant and equipment and heavy emphasis on research and development are also favorable to a marked advance in productivity.

Fuller realization of our Nation's rising productivity potential could also be fostered by the elimination or reduction of arbitrary impediments of long standing. For example, many rules, codes, and practices that restrict

output and hinder the introduction of more efficient techniques deserve to be modified in the national interest, while providing reasonable safeguards for workers. The reduction of deterrents to productivity is an end to which labor and management, with the help of Government, if necessary, should work more intensively in the years ahead. The recent decision to establish a commission concerning railroad work practices has properly been hailed as a step in the right direction.

Although the signs are promising, the rate of economic growth cannot be predicted accurately, since the future size of the work force, the level of employment and hours of work, and the rate of actual productivity advance are themselves uncertain. However, if we succeed in the next 10 years in holding unemployment rates to their average in the 1950's, and if the long-term average rate of increase in productivity persists, the growth of national output would exceed by a significant margin the rate achieved since the Employment Act was passed. A more rapid advance of productivity would yield a still higher rate of growth. This is the opportunity inherent in the present position of our economy and in its longer-term prospects.

#### GOVERNMENT AND PRIVATE POLICIES

In our free economy, economic growth and the improvement of living standards depend not primarily on what government does but mainly on what is done by individuals and groups acting in their private capacities. In this system of shared responsibility, the tempo of economic activity is especially sensitive, for example, to the plans and actions of large firms and powerful labor organizations whose operations are national and international in scope.

Government makes its basic economic contribution not through the volume of its own expenditures but by promoting conditions favorable to the exercise of individual initiative and private effort. Accordingly, a dominant purpose of government at every level must be the preservation and invigoration of institutions that favor and support enterprise. In particular, the Federal Government should encroach no more than necessary on the province of private action. Indeed, it should expand as broadly as possible the opportunities for private decision-making; strengthen incentives for businessmen, workers, savers, and investors; and promote a vigorously competitive environment in domestic and international markets. And within the area of public action, the Federal Government must avoid encroachment on the province of State and local units. The expected increase in the demand for public investment and the emergence of new regional and area problems will require efforts on the part of State and local authorities and of citizens in general to render more effective the instruments of government located close to home. A proper sharing of governmental responsibility may require a strengthening of the capacity of State and local entities to meet their emerging and increasingly heavy burdens.

### *Maintenance of Price Stability*

In administering fiscal and monetary affairs, the Federal Government makes a signal contribution to growth to the extent that it strengthens confidence in the stability of prices. The threat or experience of inflation tends to undermine thrift, even apart from the inequities inflicted and the hazards raised to sustainable growth of production. A steady and ample flow of savings and a growing volume of productive investment have been crucial to the development of our economy and will be needed more than ever in the years ahead if greatly increased numbers of workers are to be supplied with adequate tools and equipment.

Among Government efforts to maintain a reasonably stable price level, special importance must be assigned to the noninflationary conduct of Federal budgetary and fiscal affairs. Rising Government expenditures can put a direct upward pressure on costs and prices—especially when employment is already high—either because of their very magnitude or because they may concentrate demand on economic sectors in which personnel or supplies are relatively limited. Thus, inflationary pressures can be created throughout the economy, encouraging cost and price increases that do not appear directly traceable to Government action. A significantly large budgetary deficit, too, can impair the effectiveness of an anti-inflationary monetary and credit policy. Furthermore, the example set by Government in the conduct of budgetary and fiscal matters influences public attitudes and the psychology of the marketplace.

The second major Government instrument for controlling inflationary tendencies is monetary policy, for which the independent Federal Reserve System is responsible. Increases in credit, deposits, and currency are required to accommodate the rising volume of payments accompanying higher levels of production and employment, even when prices are generally stable. But these increases must be moderated so that they do not directly or indirectly contribute to the erosion of purchasing power.

The specific goals of monetary policy in particular situations and the best means for achieving them must be determined on the basis of long experience and a deep understanding of economic and financial developments at home and abroad. Experts may well differ on paramount short-term objectives, methods, and timing, especially since a wide variety of national interests have to be taken into account; but there should be no difference of opinion as to the unworkability of a policy of forcing interest rates to artificially low levels and keeping them there. Such a policy would be self-defeating, leading eventually to unbridled inflation or to a network of direct controls of wages, prices, and the use of credit.

Another factor bearing on the maintenance of price stability for sound economic growth is the control of unit production costs—a responsibility that in our free society rests primarily with private individuals and groups. An important aspect of cost control is the achievement and maintenance of a proper relationship between wage and productivity changes in the

economy as a whole. In general, if average increases in wages and salaries are inconsistent, over the long run, with average improvements in productivity, prices may be expected to trend upward. Wage settlements negotiated by management and labor should not preclude price reductions in parts of the economy where productivity rises especially rapidly. High wages provide a dependable source of increased economic demand only to the extent that they are justified by productivity performance. In the last analysis, the only way to assure that, for the economy as a whole, maximum employment and maximum production also mean maximum purchasing power is to keep wage improvements generally within the range of productivity advance.

The prolonged shutdown of the steel industry in the latter half of 1959 emphasizes another important implication of labor-management negotiations. Failure to achieve prompt, as well as reasonable and realistic, settlements of outstanding differences can lead to imbalances in production rates and inventories. These imbalances, and the attendant uncertainties and disappointments of expectations, can have a harmful effect on economic stability and on the general level of employment. It is important for labor and management to conduct their negotiations and settle their differences in a responsible manner and thus avoid inviting new Government controls and new limitations on their initiative.

The maintenance of price stability is significantly affected also by Government price and income support policies for agriculture. In this area, policies that would raise consumer food prices and tend to increase production costs through compensating wage adjustments must be avoided.

### *Tax Policy*

Taxation is another major area in which Government can contribute significantly to the speed of economic growth. A tax system must, of course, provide the revenues needed to cover governmental expenditures over reasonable periods, though a balance is not required every year. A budgetary surplus in prosperous times helps curb inflationary pressures, and a deficit during a period of recession may help reverse the downturn. More positively, a selective revision of our tax structure is needed to promote incentives and to maintain the vigor of the enterprise system. But it is important that the full benefits of tax revision should not be jeopardized by the hasty improvisation of reductions in the hope of countering cyclical downturns in economic activity.

Opportunities for effective tax revision will be afforded more readily as tax revenues increase with the growth of the economy. Thus, economic expansion at a rate comparable to that achieved in the period since 1946 would yield several billion dollars of additional receipts annually within the existing tax structure. However, the full amount of these potential increases in tax revenues would not be available for new expenditure programs or tax relief, inasmuch as programs undertaken pursuant to legisla-

tion already enacted will require increasing outlays in the future. The large veteran population is aging and, under present laws, expenditures for pensions, compensation, and medical care may be expected to grow. The annual cost of the medical care program for the aged enacted in 1960 will take some time to reach a maximum. Many public works projects are still in the early stages of construction, and their annual costs have not yet reached a peak. The civilian space program is expanding, and current appropriations exceed current expenditures. Although anticipated increases in expenditures, such as those just outlined, may be offset by the reduction or termination of some programs, a continuing upward trend in Government spending is foreseen.

Clearly, tax relief depends not only upon the rapid growth of the private sector but also on continuing budgetary discipline; and the chief objective of such relief, with due regard to equity considerations, should be the acceleration of the growth of the national product, especially through the sharpening of incentives for private investment. Government must keep a constant watch over its expenditures and at the same time look for opportunities to effect tax changes that will provide both the greater means and a greater stimulus to economic growth. Many features of the tax revision enacted in 1954 were designed with this dual purpose in view.

#### *Measures to Reduce Unemployment*

As the opening section of this chapter implies, further advance toward moderating cyclical fluctuations in the volume of employment could contribute significantly to more rapid economic growth. Maintenance of reasonable price stability would give strong support to other efforts in this direction. Federal and State governments must be prepared to take positive steps to counteract or moderate the impact of declines. In addition to making prior provision for automatically cushioning economic contraction, they may have to enact emergency measures, if these are warranted, or to incur temporary budgetary deficits.

Steadier and fuller employment of the labor force, which presents the greatest and most complex challenge to public and private policy, is a problem that has structural as well as cyclical aspects. The problem cannot be resolved only by the moderation of fluctuations in economic activity as a whole; a continual, more effective matching of labor supply and demand in specific geographic areas, industries, and occupations is also required. Such matching must be as smooth as possible in order to overcome dislocations incident to technological change, the transition from agriculture to industry, long-term shifts in product demand and industry location, and international competition. While corrections of these conditions are found most readily in a stable and prosperous economy, special remedial measures also are required. Although the Federal Government cannot assume the major responsibility for such measures, it can participate effectively in a joint, many-sided program.

Above all, well directed local efforts must be made to develop new industries in areas of relatively high and persistent unemployment and underemployment. Technical assistance is currently available from the Federal Government, but legislative authority to extend and strengthen existing programs and to make available a new program of financial assistance is urgently needed.

The Economic Report of January 1960 pointed out that legislation to facilitate structural adjustments should meet several tests. It should be designed to stimulate and complement the efforts of local communities and citizens' groups to help themselves, promoting as much direct participation as possible on the part of private financial institutions and of State and local agencies. It should concentrate on areas in greatest need of assistance and avoid dispersing funds over wide regions with little lasting effect. It should encourage the creation of new job opportunities, not merely the transfer of jobs from one part of the country to another. It should include provision for technical aid in the economic diversification of rural low-income areas and of single-industry communities, as well as assistance for communities of a predominantly industrial character. And it should encourage programs of vocational training and retraining to upgrade the qualifications for new jobs of residents in areas of persistent unemployment and underemployment.

More general measures are needed to ease existing hardships and to limit the spread of distress to other areas not now affected. Thus, greater attention must be given to the change in the pattern of employment opportunities in the direction of occupations and professions requiring higher levels of education and training. The trend away from heavy, unskilled labor may be expected to continue or even quicken as our technology progresses. Therefore, maximum future employment depends in part on the timeliness and success of private and public efforts to adapt our labor force by improving job counseling and placement, by strengthening vocational education and training, by eliminating discrimination in the labor market, by raising standards of educational achievement, and by increasing the number of competent teachers.

#### *Education and Health Services*

Advances in education are, of course, important from more standpoints than the enhancement of employability. Along with improvements in health, they raise the Nation's productivity potential, provide a key to greater individual well-being and security, and add to the quality and diversity of social life.

Though standards and performance in the fields of education have steadily progressed, much remains to be accomplished. Our educational institutions must prepare for much greater numbers of high school, college, and graduate students. While enrollment in public elementary schools may rise by nearly 2.9 million, or 12 percent, over the next eight years, the

number of students in public secondary schools is expected to increase by 3.8 million, or about 30 percent. Furthermore, the number of students attending colleges and universities, now about 4.0 million, may increase by another 2.3 million, or nearly 60 percent.

This growth will require a huge expansion of the Nation's commitment to education. Primary responsibility for meeting the demand should remain with local and State governments and with private groups, as the Federal Government provides important supplements. Federal financial assistance to education will reach about \$1 billion in 1962, and this amount does not take into account educational benefits from Federal outlays of billions of dollars a year for research and development. Our educational institutions also derive large financial benefits from the tax treatment of contributions made to them.

Like education, health activities will provide both supports and outlets for accelerated economic advance. Basic studies of the emerging needs in these areas and of public and private roles in meeting them have been made under Government sponsorship. As the population continues to grow rapidly and living standards rise, the Nation's demands for health services will greatly expand. More than \$25 billion—three fourths from private sources—is being expended annually on health. Federal expenditures, including outlays of the National Institutes of Health for medical research and training and the medical program of the Veterans Administration, will amount to about \$2.2 billion in the fiscal year 1962, compared with \$2.0 billion in the current fiscal year and \$1.8 billion in fiscal 1960; within the 1962 total, Federal expenditures for hospital construction, mainly grants, are estimated at \$236 million, an increase of 7 percent over such expenditures in the current fiscal year. Important Government action was taken last year to improve health services for needy older people, but more remains to be done under private as well as public auspices. Especially, increasing attention has to be directed toward augmenting the number of doctors and dentists as the population expands. A new 5-year, \$100 million program of grants for the construction of medical and dental schools has been proposed.

Some improvements will be needed in Government programs of social insurance that supplement private provisions for protection against the hazards and hardships of income loss through unemployment, old age, disability, and death. In addition to their value in alleviating personal hardships, these programs have demonstrated their usefulness in helping achieve economic growth and stability. Minimum wage laws also, when carefully designed and administered, help safeguard wage standards for workers at the fringes of competitive labor markets and encourage the spread of more efficient productive techniques.

#### *International Responsibilities*

Economic growth requirements must be viewed in the light of our international responsibilities as well as our constant striving for domestic im-

provement. Despite the great contributions made toward the progress of the less developed countries, further vast efforts are required to help raise their living standards. We hope that, in the future, the nations we helped in their time of critical need and which have now regained their economic strength will participate more fully in bilateral and broader joint programs of investment, grants, and technical aid.

For our part, we can discharge our international obligations most effectively if we achieve sound as well as rapid economic growth. This means that public and private efforts to speed the expansion of our national product should avoid inflation, aim at solution of our balance of payments difficulties, maintain world confidence in the value of the dollar, and strengthen our competitive position in world markets. We may expect our allies to play a major role in the common defense and in the expansion of the world economy, but the principal burden of leadership in the quest for peace with justice will still be ours. To carry this burden, we must be prepared to follow policies, private and public, that will keep our economy strong and vigorous.

### *Statistical Information*

In an economic and social system organized around the principle of shared responsibility, a need of a technical order arises, namely, to make reliable statistics and other information broadly available in order to facilitate private and governmental decision-making, forecasting, and action. The variety of our economic and social life and the very pace of change require constant re-examination, expansion, and revision of the body of statistical and nonstatistical information designed to meet current and anticipated needs. Consistently with the objectives of the Employment Act, the Council of Economic Advisers has, in statistical appendixes to the *Economic Report of the President* and in *Economic Indicators*, facilitated wider access to needed economic data. The Executive Branch in general, and also the Congress, have participated in numerous undertakings to extend, diversify, and renovate the Federal contribution to the supply of published statistics and basic reports. Further improvements that will be needed include strengthening the national economic accounts, particularly the development of better estimates in terms of constant dollars; achieving more comprehensive coverage, as well as speedier collection of certain key data in the balance of payments; increasing the number of weekly series, so important to the appraisal of economic conditions and outlook at critical points in the business cycle; providing better information on inventories, the importance of which was dramatically illustrated during the steel strike of 1959 and its aftermath; enlarging available information on new orders, businessmen's and consumers' intentions, and other indicators useful in appraising the economic outlook; and expanding the supply of regional and area information to facilitate the planning and administration of private and public activities.



## LEGISLATIVE PROPOSALS

To a considerable extent, the Federal policies needed to help achieve sound and rapid economic growth can be applied administratively and require no legislative action by the Congress. However, there are important matters on which action is needed.

First, total funds appropriated by the next Congress for the fiscal year 1962 should be held within the limits of expected revenues. The budget presented to the Congress conforms to this standard and at the same time makes adequate provision for needed programs. It provides for an increase of \$1.5 billion for major national security programs, and an additional \$200 million for economic and financial assistance under the mutual security programs. It also provides for substantial increases in research and development activity and in other programs that have a significant bearing on the welfare of our citizens and on the rate and stability of economic growth: the development of natural resources, assistance to areas of high and persistent unemployment, the improvement of health and housing, and medical care for elderly persons.

Second, the budget for fiscal 1962 makes certain suggestions for revenues to cover these expenditures. It is recommended there that the present tax rates on corporation income, and the excise taxes scheduled for reduction or termination on July 1, 1961, be extended for another year. Unless these tax rates are extended, Federal Government revenues in the fiscal year 1962 will be \$2.6 billion less than estimated and \$3.7 billion less on a full year basis.

To obtain additional revenues in the coming fiscal year and later years, it is proposed that measures be enacted to charge users for special benefits which they derive from particular Government activities. Thus, the highway fuel tax should be raised to 4½ cents per gallon to provide funds in the Highway Trust Fund sufficient for construction of the interstate highway system on schedule; and the action taken by the Congress in 1959, which would divert funds from the general fund of the Treasury to build this road system, should be rescinded.

It is also recommended that Congress raise the excise tax rate on aviation gasoline from 2 cents to 4½ cents per gallon, impose the same tax on jet fuels, and retain the receipts from these taxes in the general fund to help defray the cost of the Federal airways system.

The request for a rate increase which will put the postal system on a self-supporting basis, apart from specified public services, is renewed. It is unreasonable that the system should operate at a deficit of nearly \$900 million a year. Those who use postal services should pay prices sufficient to avoid deficits on this scale.

Third, the request is again made that the Congress give the Secretary of the Treasury authority to raise funds in the long-term capital market when, in his judgment, this is in the public interest, even if the cost of the funds is above 4¼ percent. Some long-term borrowing may be possible

under current conditions without lifting this interest-rate ceiling, but the ceiling remains an important impediment to the Treasury's flexibility in achieving significant debt lengthening.

Fourth, the request for legislation to enable the Federal Government to assist areas that experience high and persistent unemployment is again repeated. The Administration's proposal is drafted to meet the standards described earlier in this chapter. Eligibility requirements for assistance under the proposed new program would direct funds to localities of greatest need and avoid spreading available Federal funds too thinly over a larger number of areas.

Fifth, it is again urged that steps be taken to promote long-term agricultural adjustment and to make effective use of accumulated agricultural surpluses. Specifically, the price support laws should be modified to reflect unit cost reductions resulting from increasing technological efficiency on commercial farms and thereby reduce budget expenditures for the stabilization of farm prices and support of farm income. Energetic administration of the Rural Development Program is the most promising means for assisting readjustment of that part of the farm population which has neither sufficient productive farm resources nor adequate employment opportunities off the farm. Maximum efforts should also be made to use more of our accrued agricultural surpluses in the Food-for-Peace Program.

Sixth, Congress failed last year to pass legislation to supplement the Federal Government's established programs for assisting education by aiding States and local communities and institutions of higher education to provide needed educational facilities. Legislative proposals which constitute a sound approach to this problem were put before the last Congress by the Administration; they are again recommended for favorable consideration.

Seventh, as proposed in earlier Economic Reports, the Congress should enact legislation to extend coverage of the unemployment compensation system to about 3 million additional workers, most of whom are employed in firms having fewer than four employees. With appropriate action by the States to raise the level and to increase the duration of benefits, this legislation would make the system more effective in helping to stabilize our economy during periods of rising unemployment and in alleviating personal hardship. The States are again urged to increase benefits to make the great majority of covered workers eligible for payments equal to at least half their regular earnings, and to increase the maximum duration of benefits to 26 weeks a year for all eligible workers who remain unemployed that long. Under our Federal-State system, primary responsibility for the level and duration of benefits rests with the States; however, in periods of especially high rates of unemployment that have been prolonged, the Congress should give consideration to a program which would temporarily supplement regular benefits in some such manner as was done with good effect in 1958.

Eighth, to enhance the progress being made for equalizing economic opportunity for all citizens, the Congress is again urged to establish a statutory commission on equal job opportunities under Government contracts and to enact legislation for carrying out the proposal of equal pay for equal work without discrimination because of sex.

Ninth, it is again recommended that the coverage of the Fair Labor Standards Act be extended to several million workers not now receiving its protection, and that a moderate adjustment be made in the minimum wage provided in the Act.

Tenth, the program under which Mexican workers are brought into the United States for agricultural work terminates at the end of 1961, unless extended. Legislation to extend this program should include improvement of the present law's provisions to ensure that employment of Mexican agricultural labor will not adversely affect the wages and employment opportunities of our own farm workers.

Eleventh, the Congress is also urged to remedy the serious defects in the legislation enacted in 1958 to protect the interests of the Nation's working men and women in private pension and welfare plans; and to revise the out-moded provisions of the 8-hour laws applying to Federal and certain federally assisted construction projects.

Twelfth, the last Congress enacted a program of Federal assistance for medical care for older persons under the regular old age assistance program and a new program of medical assistance for needy older people who are not recipients of public assistance. This voluntary program under Federal-State-local auspices is sound in principle. However, under the law enacted, many older people will not be able to obtain needed protection to cover major hospital and medical costs incurred because of serious illness. It is recommended that the Congress give further consideration to the recommendations made last spring by the Administration.

Thirteenth, existing programs for housing and community development are no longer experimental, and their successful operation in future years will be enhanced by the repeal of statutory termination dates and the removal of limitations on authorization amounts that can more properly be regulated through the normal appropriation process. Similarly, statutory maximum permissive interest rates should either be eliminated or adjusted to levels that will not bring about a restriction from time to time in the flow of investment funds. Permanency and flexibility in the basic housing programs will permit communities and industry to plan and regulate future activity without the burden of depending on, and adjusting to, the provisions of annual legislative enactments. To this end, the present authorization limitations should be removed on the amount of mortgages that can be insured by the Federal Housing Administration; similarly, legislative limits on grants for urban renewal projects should be removed and permanent authority for annual appropriations substituted. Also, the program to insure loans on home improvements should be made permanent. Present ceilings on

interest rates should be eliminated or substantially raised for loans made or guaranteed by the Veterans Administration and for mortgages insured by the Federal Housing Administration on rental housing, especially housing for the elderly, and on family housing built for occupancy by members of the armed services.

Fourteenth, suggestions made in previous years for amendment of the antitrust laws, to improve the competitive quality of our economy, are repeated: (1) Firms of significant size engaged in interstate commerce and proposing to merge should be required to notify the antitrust agencies of their intention. (2) The Federal Trade Commission should be given authority to seek a preliminary injunction in the case of mergers likely to violate the antitrust laws. (3) The Attorney General should be given the power to issue civil investigative demands for the necessary facts when civil procedures are contemplated in antitrust cases. This last recommendation, which passed the Senate in the 86th Congress, would simplify and greatly speed up all such proceedings.

Finally, the recommendation that the Congress amend the Employment Act of 1946 to make reasonable price stability an explicit goal of national economic policy is renewed. As pointed out in the Economic Report of January 1960, this goal already appears to be implied in the declared objectives of the Act, but an amendment such as the one proposed would increase public awareness of the price stability problem and strengthen the Government's hand in pursuing effective policies to help prevent inflation. The proposed amendment is limited to a change in the language of the Act's declaration of policy and would accomplish its aim without placing restrictions on the effective operation of economic markets.

These proposals, like others placed before the Congress by the Administration, have been designed to promote the sound growth of our economy on the principles set forth in this Economic Report. They indicate routes along which we may move ahead confidently within our system of shared responsibility, in a manner that fosters private competitive enterprise and recognizes the obligations of State and local government, to achieve the purposes proclaimed in the Employment Act.