66 66

83d Congress }
2d Session } JOINT COMMITTEE PRINT

CONGRESSIONAL ACTION ON MAJOR ECONOMIC RECOMMENDATIONS OF THE PRESIDENT, 1954

MATERIALS PREPARED

FOR THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

BY THE

COMMITTEE STAFF

Printed for the use of the Joint Committee on the Economic Report

UNITED STATES
GOVERNMENT PRINTING OFFICE
53294 WASHINGTON : 1954

22

JOINT COMMITTEE ON THE ECONOMIC REPORT

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

JESSE P. WOLCOTT, Michigan, *Chairman*
RALPH E. FLANDERS, Vermont, *Vice Chairman*

RICHARD M. SIMPSON, Pennsylvania
HENRY O. TALLE, Iowa
GEORGE H. BENDER, Ohio
EDWARD J. HART, New Jersey
WRIGHT PATMAN, Texas
RICHARD BOLLING, Missouri

ARTHUR V. WATKINS, Utah
BARRY GOLDWATER, Arizona
FRANK CARLSON, Kansas
JOHN SPARKMAN, Alabama
PAUL H. DOUGLAS, Illinois
J. WILLIAM FULBRIGHT, Arkansas

GROVER W. ENSLEY, *Staff Director*
JOHN W. LEHMAN, *Clerk*

LETTER OF TRANSMITTAL

SEPTEMBER 24, 1954.

To Members of the Joint Committee on the Economic Report:

The months encompassing the 2d session of the 83d Congress presented new challenges to the machinery established under the Employment Act of 1946.

The Employment Act of 1946 was originally conceived during the war period. It was planned primarily as a hoped-for bulwark against postwar unemployment which, to many persons, then seemed probable. As events subsequently unfolded, the most serious economic problem of the immediate postwar period—except for a short time in 1949—turned out to be threatening inflation. The most pressing policy need came to be that of dampening the persistent inflationary forces which at times threatened to upset hopes for long-run economic stability and growth.

Beginning with the second half of 1953, however, evidences of business contraction, leading to unemployment in various localities, began to loom as the major problem in the transition to a reduced level of defense expenditures. As the calendar year 1954 opened and the time came for the presentation of the President's regular, annual Economic Report, concern over the downward trend had become general in the minds of responsible persons both in and out of Government.

Granting that some economic readjustment accompanying the transition to lower mobilization rates had been anticipated by most thoughtful observers, the annual Economic Report of the President, the Joint Economic Committee's hearings and its report to the Congress on the economic situation came at precisely the time when underlying confidence in the immediate future was most tempered with misgivings. In this situation, the analysis of economic trends by the President, by his Council of Economic Advisers, and by this committee, all as called for by the Employment Act, contributed greatly to clarification of thinking about the forces then at work and needing to be dealt with. Determination of appropriate policy was aided by this timely review, systematically setting forth the current and prospective situation as it might affect employment, production, and purchasing power.

Upon the basis of carefully considered evidence, the President's program listed various measures which he and his advisers felt were, under the circumstances, desirable for strengthening our economy. The President said of his program at the time that:

> It is not a legislative program of emergency measures, for the current situation clearly does not require one. Instead, it is a program for stimulating economic growth and minimizing any chance there may be of serious economic difficulty in the future (Economic Report, p. 76).

The program presented in the economic message consisted of some 35, more or less detailed, recommendations in the fields of tax policy, public-works planning, housing, international trade policy, together with proposals for strengthening the so-called built-in economic stabilizers, such as agricultural price supports, unemployment compensation, and old-age and survivors insurance. The President's recommendations in several of the fields were subsequently elaborated on in greater detail in separate, special messages. Since these messages related to specific legislative measures, they were not before the Joint Economic Committee for its consideration.

After extensive public hearings, together with careful and full consideration and discussion of the issues presented, the Joint Committee on the Economic Report generally approved the program presented in the Economic Report, with the exception of that portion relating to agricultural price supports. There were, of course, inevitable differences of opinion among committee members as to the adequacy of and the degree of emphasis to be given to the individual proposals.

In carrying out its own responsibility, it has been the task of the Congress, as the legislative representatives of the people at large, to adapt and modify the programs and recommendations offered by the executive branch. There have, moreover, as the weeks progressed, been changes in the economic situation itself. In some instances these may have justified modification of programs originally presented some months ago. This is especially true in view of the fluid economic situation then prevailing.

By and large, the program presented in the Economic Report and approved as noted by the joint committee has found favorable acceptance in the Congress. In several instances, notably foreign trade and public housing, the programs have been carried forward, but limited by legislation to a shorter period than that originally proposed by the President. In several other important respects the Congress has taken important economic steps which went beyond the specific recommendations of the program. The reduction of excise taxes on April 1, and the increased highway authorization are cases in point.

Now, at the conclusion of the congressional session which has considered these matters, it seemed appropriate to me to ask the committee staff to summarize the progress and the modifications made in the legislative program growing out of the procedures established under the Employment Act.

The accompanying materials, based upon the regular, continuing study of the economic program by the committee staff, accordingly present (1) a summary of the recommendations for legislative action contained in the January 1954 Economic Report of the President (H. Doc. 289); (2) a summary of the Joint Economic Committee's own findings and recommendations with respect to these main recommendations, submitted in accordance with the Employment Act to the Congress "as a guide to the several committees dealing with legislation relating to the Economic Report" (H. Rept. 1256); and (3) a summary of major legislation enacted by the 2d session, 83d Congress in the respective areas covered by the President's Economic Report.

Presentation of the materials follows the order set forth in the joint committee's report (H. Rept. 1256). Discussion of the several programs herein, begins on the following pages:

The staff of the Joint Economic Committee has had the advantage of a review of these materials by the informed personnel of the Legislative Reference Service of the Library of Congress. The principal work of preparing these materials was done by William H. Moore, of the committee staff.

JESSE P. WOLCOTT,
Chairman, Joint Committee on the Economic Report.

CONGRESSIONAL ACTION ON MAJOR ECONOMIC RECOMMENDATIONS OF THE PRESIDENT, 1954

INCREASING THE FEDERAL DEBT LIMIT

Recommendations for legislative action contained in Economic Report of the President

A higher Federal debt limit is necessary not only for the efficient conduct of the Government's current operations, but also for acting promptly and vigorously if economic conditions require that additional steps be taken in the interests of economic stability (p. 113).

Joint Economic Committee recommendation

The committee felt that it was neither prudent, realistic, nor efficient to face the possibility of further economic contraction with the Treasury's debt-management hands hampered by too tight a leeway in debt administration. In view of the possible need for prompt, vigorous economic stabilization policy, it was pointed out that Congress clearly has the responsibility of raising the debt limit if it makes appropriations and fails to provide sufficient revenues because of fiscal policy considerations (H. Rept. 1256, p. 6).

Congressional action on the recommendations of the Economic Report

The public debt limit was temporarily increased to $281 billion, $6 billion over the previous limit of $275 billion. The increased authorization is applicable only during the period until June 30, 1955 (Public Law 686).

THE OLD-AGE AND SURVIVORS INSURANCE SYSTEM

Recommendations for legislative action contained in Economic Report of the President

1. Coverage in the Federal old-age and survivors insurance system should be extended to bring into the system some 10 million additional workers (p. 99).
2. Old-age and survivors insurance benefits should be increased; first, by eliminating from the earnings base the 4 lowest years of earnings; second, by raising the benefit to 55 percent of the first $110 of the average monthly wage, plus 20 percent of the balance; third, by increasing the minimum benefit from $25 to $30; fourth, by raising from $3,600 to $4,200 the annual maximum above which wages are not counted in computing benefits or taxes (p. 100).
3. As regards the retirement test, the earnings permissible without loss of benefits should be put on a yearly basis for all beneficiaries, and liberalized in amount (p. 100).
4. For those with substantial old-age and survivors insurance work records who suffer total and extended disability, benefit rights should be preserved without diminution or loss until they reach age 65 (p. 100).

Joint Economic Committee recommendation

The committee recommended that the proposals contained in the Economic Report for broader coverage and increased benefits under the old-age and survivors insurance system be enacted in the interests of both equity and justice, and for the direct contribution which they can make to economic stability (H. Rep. 1256, p. 7).

Congressional action on the recommendations of the Economic Report

1. The act (Public Law 761) extends the coverage of the Federal old-age and survivors insurance system by bringing in 10.2 million additional workers, including 3,600,000 farm operators; 2,100,000 farm workers; 200,000 domestic workers; 3,500,000 State and local employees; 250,000 ministers; 100,000 home workers; 50,000 fishermen; 100,000 employees of foreign subsidiaries; 50,000 in employment not in course of trade or business; 100,000 professional self-employed; and 150,000 Federal employees.

2. Benefits under the act for persons now on the benefit rolls (more than 6.5 million) as of September 1, 1954, will be raised an average of $6 a month with the range in primary insurance from $30 to $98.50 compared to $25 to $85 under present law.

In the case of those who retire in the future or are survivors of an insured person who dies in the future, benefits will be computed on a new formula—55 percent of the first $110 of average monthly wage plus 20 percent of the next $240. The new formula is applicable, however, only if it yields a larger benefit than the formula applicable to those now eligible. (Maximum benefits for retired workers are raised from $85 to $108.50.) The minimum monthly benefit for a retired worker or survivor where there is but one survivor entitled to benefits would be $30, while the maximum monthly family benefits would be increased to $200. Lump-sum death payments would not exceed $255, as under previous law.

The act raises from $3,600 to $4,200 the maximum annual earnings on which benefits would be computed and contributions paid.

The individual will be entitled to drop out from the computation of his average monthly wage for benefit purposes up to 5 years of his lowest earnings.

3. The earnings limitation would be removed entirely at age 72, instead of 75 as under present law. Under the new act a beneficiary may earn up to $1,200 a year from covered work without loss of benefits. He would lose a month's benefit for each unit of $80, or fraction thereof, of covered earnings in excess of $1,200 but in no case would he lose benefits for months in which he neither earned more than $80 in wages nor rendered substantial services in self-employment. This puts the earnings test on an annual basis as compared with the previous limitation whereby a beneficiary lost his benefits for any month in which he earned more than $75.

4. The period during which an individual (who has satisfied minimum requirements with respect to prior coverage) was under an extended total disability would be excluded in determining his insured status and the amount of benefits payable to him upon retirement or to his survivors in the event of his death. Only disabilities lasting more than 6 months would be taken into account.

THE UNEMPLOYMENT INSURANCE SYSTEM

Recommendations for legislative action contained in Economic Report of the President

1. Include the 2.5 million Federal civilian employees in the unemployment insurance system, and the Federal Government should reimburse to the States the amount of the cost, estimated at $25 million for fiscal 1955 (p. 97).

2. Add to the unemployment insurance system some 200,000 persons engaged in operations involving the processing, packing, etc., of agricultural products (p. 97).

3. Amend the unemployment insurance law to cover employees of businesses with fewer than eight employees (p. 97).

4. Shorten from 3 years to 1 year the period required to qualify for rate reduction under unemployment insurance (p. 97).

5. Congress should provide machinery for granting non-interest-bearing loans to States whose unemployment reserves may be near exhaustion. Such loans should not be repayable until at least 4 years unless the State's fund rises above a safe minimum or its contribution rate is not sustained at a level reflecting its financial responsibility (p. 98).

Joint Economic Committee recommendations

The committee approved the objectives of the President's program, noting that "broader coverage and strengthening the State systems will help maintain consumer demand and aid in forestalling or countering rising unemployment," as well as relieve individual distress from unemployment.

Although each State enacts its own unemployment insurance law and operates its own program, the committee commended the President's suggestion that the States should raise the potential duration of benefits and their dollar maximums (H. Rept. 1256, p. 7).

Congressional action on the recommendations of the Economic Report

1. Unemployment insurance is extended to approximately 2.5 million Federal civilian employees, giving them unemployment benefits under conditions set by the State in which they last worked, with Federal reimbursement to the States of the amount of the costs (Public Law 767).

2. Workers engaged in operations involving the processing, packing, storing, or delivering of agricultural commodities which cannot reasonably be classed as agricultural pursuits, like farmworkers, are not covered, although coverage of the former was recommended.

3. An estimated 1.3 million additional workers are brought into the system through the extension of coverage (effective January 1, 1956) to employers of 4 or more persons in each of 20 weeks compared to existing law which covers only employers of 8 or more employees in 20 weeks (Public Law 767).

4. States are authorized to extend experience-rating tax reductions to new and newly covered employers after they have had at least 1 year of coverage under the State law instead of 3 years as required today. This provision means that small and new businesses will have the advantage of reduced tax rates where they have had a favorable employment experience for 1 year instead of having to wait 3 years

under present law before being eligible for this benefit (Public Law 767).

5. The Employment Security Administrative Financing Act of 1954 (Public Law 567) provides that collections from the Federal unemployment tax in excess of administrative expenses and cost of administering the Federal and State programs of employment security, including unemployment insurance and the costs of public employment offices, shall be used to establish and maintain a $200 million reserve in the Federal unemployment account. Any excess of taxes collected above amounts required to establish and maintain this reserve shall be allocated to the States in proportion to their covered payrolls.

The reserve balance will be available to States with depleted reserve accounts for the purpose of assisting them in financing their employment benefit payments. Repayment of the advances obtained by States is to be made by either (*a*) transfer of funds from the trust account of the borrowing State, or (*b*) a decrease in the 90 percent allowable credit against the 3 percent Federal unemployment tax.

The provision of a loan account from which States with depleted accounts may secure repayment advances recognizes the Federal interest in protecting the solvency of State trust accounts in a manner consistent with the intent that States be charged with ultimate responsibility in financing the benefits which they elect to provide.

AGRICULTURAL POLICY

Recommendations for legislative action contained in Economic Report of the President

1. The 1949 price-support legislation should take effect for "basic" crops, as presently scheduled, on January 1, 1955 (p. 93).

2. Congress should avoid further postponement (beyond the present effective date of January 1, 1956) of the application of the "modernized" parity price formula to basic commodities—corn, wheat, cotton, and peanuts—for which the old parity price is above the new price (p. 93).

3. Commodity Credit Corporation borrowing authority should be increased from $6.75 to $8.5 billion (p. 94).

4. Congress should authorize the setting aside of up to $2.5 billion of CCC stocks, with the objective of insulating them from regular domestic and foreign markets (p. 94).

Joint Economic Committee recommendations

The committee felt that the proposals contained in the President's Economic Report might in the short run place the farm family in a relatively worse position. The committee's views were summarized as follows: "Whatever the merits of flexible supports and modern parity may or may not be as a long-run program it is questionable whether their contribution at this time will act to sustain farm income in the months immediately ahead when the threat to our economic stability is so generally recognized. On the contrary, it seems more likely that the proposed shift to 'modernized parity' at this particular time would be an unnecessary disrupting factor."

The committee also urged that "the nonmarket disposition of surpluses to institutions for the needy, school lunches, and foreign relief should be stepped up" and recommended "an aggressive policy for discovering added domestic and foreign markets for these surpluses and for future production so far as possible through the discovery of new uses, industrial or other."

In respect to the proposal calling for the setting aside or earmarking of surplus stocks with the objective of insulating them from regular markets, the committee noted "No solution to the agricultural problem can count on the expectation that the world markets will be blind to the existence of excesses" (H. Rept. 1256, p. 8).

Congressional action on the recommendations of the Economic Report

1. Price supports for the 1955 crop of basic commodities, with the exception of tobacco, are provided for on a flexible scale with a floor at 82½ percent of parity and the maximum at 90 percent of parity price. The support level for tobacco remains at 90 percent of parity. Supports for whole milk and milk products are to be not less than 75 percent nor more than 90 percent of the parity price which the Secretary determines necessary in order to assure an adequate supply (Public Law 690). Under prior legislation, flexible supports within the limits of 75 to 90 percent were called for. Unless further action is taken by the Congress, the 75 to 90 percent limits will apply after the 1955 crop.

2. No postponement or change is made in the "transition parity" provisions which will come into operation on January 1, 1956, as previously provided for, except that the annual 5-percent drop will be computed from January 1, 1955, rather than from January 1, 1949, as provided in the original act, operation of which has up until now been postponed.

3. Commodity Credit Corporation borrowing authority was increased from $6.75 to $8.5 billion on March 20, 1954 (Public Law 312); and from $8.5 to $10 billion on August 31, 1954 (Public Law 754).

4. The Commodity Credit Corporation "shall set aside within its inventories" commodities having an aggregate value not in excess of $2.5 billion. Maximum and minimum quantity limits are specified in the act for wheat, upland cotton, cottonseed oil, butter, nonfat dry milk solids and cheese (Public Law 690).

Such commodities set aside shall be reduced by disposals through (1) donation, sale, or other disposition for disaster relief purposes outside the United States; (2) sale or barter to develop new or expanded markets; (3) donation to school-lunch programs; (4) transfer to the national stockpile without reimbursement; (5) donation, sale, or other disposition for research, experimental, or educational purposes; (6) donation, sale, or other disposition for disaster relief purposes in the United States or to meet any national emergency; (7) sale for unrestricted use to meet a need for increased supplies at not less than 105 percent of the parity price (Public Law 690).

Other congressional action of importance to the program

Public Law 690, the general agricultural act of 1954, contains a variety of other administrative and substantive provisions. Of greatest economic importance among these may be mentioned:

1. Provisions relating to the administration of diverted acres.

2. A title cited as "The National Wool Act of 1954," which provides for the support of the price of wool by means of loans, purchases, and

direct payment in order to encourage an annual production consistent with the policies of the act, provided that a support price for shorn wool is to be established at an "incentive level" which will encourage an annual production of 300 million pounds but that such incentive level shall not exceed 110 percent of parity. When and if the 300-million-pound-level is attained the support level shall be not in excess of 90 percent nor less than 60 percent as the Secretary determines necessary in order to encourage an annual production of approximately 360 million pounds.

3. Provisions relating to a commercial wheat-producing area within which producers would be subject to acreage allotment and marketing quotas when required by law while producers in the area designated as noncommercial would not be subject to these limitations and would receive only 75 percent of the level of support accorded producers in the commercial area.

Public Law 480, the Agricultural Trade Development and Assistance Act of 1954 authorizes (1) reimbursement of the Commodity Credit Corporation to the extent of $700 million for the next 3 years for surplus farm and dairy products, to be disposed of through private trade channels, which in the determination of the President may be used in improving our foreign relations; and (2) the transfer of not more than $300 million (including the Corporation's investment in the commodities) from Commodity Credit Corporation's stocks on a grant basis to assist programs undertaken with friendly governments or peoples, or through voluntary relief agencies, provided that such transfers do not displace or interfere with sales which might otherwise be made.

GOVERNMENTAL AIDS TO HOUSING

Recommendations for legislative action contained in Economic Report of the President

1. Broaden the area of permissive action by authorizing the President to regulate within appropriate statutory limits, the maximum loan-value ratios, terms to maturity, and interest rates on FHA-insured and VA-guaranteed loans of all types (p. 84).
2. Raise maximum insurable loan under title I of the National Housing Act for repair or modernization of single-family structures from $2,500 to $3,000 and the maximum maturity from 3 to 5 years. Make comparable changes in title I loans for the repair and modernization of multifamily and commercial structures (p. 85).
3. Make FHA mortgage-insurance terms on existing houses more nearly comparable with those available on new houses (p. 85).
4. Give FHA explicit authority to insure loans in renewal areas for both new and existing structures (p. 86).
5. Make funds available, on a cost-sharing basis, under title I of the Housing Act of 1949 to assist cities having workable plans of urban renewal (p. 86).
6. Make mortgage-loan insurance available on especially liberal terms for families displaced as a result of slum clearance or urban-renewal activities (p. 86).
7. Continue the public-housing program (p. 86).
8. Raise mortgage-insurance ceilings under FHA (sec. 203) from $16,000 to $20,000 with appropriate differentials for larger-size units (p. 86).

9. Establish an institution for discounting mortgage investments in good standing. It would help make mortgage funds available in areas where there may be transient shortages of capital. It should also be authorized to purchase insured and guaranteed mortgages of specified types when the President directs that such action is in the public interest. While the proposed agency should be financed with private funds to the greatest extent practicable, the Federal Treasury should be authorized to provide it with financial support, in order that it may have access to adequate resources (p. 87).

Joint Economic Committee recommendations

Noting the great contribution which housing investment can make to economic stability, the committee urged that "aid to housing must be flexible and readily adaptable to changing economic conditions." The committee consequently recommended that the President be given authority "to regulate, within appropriate statutory limits, maximum loan value, terms of maturity, and interest rates upon Government-insured loans."

The committee also recommended that "measures be taken to strengthen the secondary market for mortgages. * * *"

The committee commented specifically upon the desirability of facilitating open-end insured mortgages for the financing of major home improvements on a longer-term basis.

The committee concluded its observations on this portion of the Economic Report by pointing out that—

> All housing programs, especially public housing and slum-clearance programs, should recognize that there are times when economic conditions may call for accelerated active efforts. Flexibility in the areas of public housing and slum-clearance can make them important sustaining forces in the years ahead. (H. Rept. 1256, p. 11.)

Congressional action on the recommendations of the Economic Report

1. Pursuant to the Housing Act of 1954 (Public Law 560) the Federal Housing Commissioner may determine the maturity of loans eligible for insurance on both existing and new housing at not to exceed 30 years, or three-fourths of the Commissioner's estimate of the remaining economic life of the building improvements, whichever is the lesser. Previous law limited maturities to 20-, 25-, and 30-year periods depending upon the type of housing and the section of the act under which insurance was authorized.

Eligible loans may bear interest, exclusive of premium and service charges, at rates not to exceed 5 percent per annum, or not in excess of 6 percent if the Commissioner finds the higher rate necessary to meet mortgage market conditions.

Flexibility is granted to the President to increase the ratio of loan to value in order to ease mortgage terms if he finds that this is in the interest of the national economy. In the case of new housing, a ratio of loan to value of 95 percent (provided mortgage insurance is approved prior to the beginning of construction) of the first $9,000 of value and 75 percent of the excess over $9,000 is provided and the President is authorized to increase the $9,000 amount up to $10,000 if he determines such action to be in the public interest. In the case of existing housing, the maximum loan ratio is set at 90 instead of 95 percent on the first $9,000, with authority vested in the President to increase this limit as in the case of new housing. Under the old act the loan limits were 80 percent on existing houses and from 80 to 95 percent, depending upon circumstances, in the case of new housing.

The act permits FHA insurance of advances pursuant to an open-end provision in insured mortgages on dwellings designed for not more than four families where the advance is used for improvements and repairs which substantially protect or improve the basic livability or utility of the property, provided that the advance when added to the unpaid amount of the mortgage will not make the unpaid balance exceed the amount of the original mortgage unless the mortgagor certifies that the proceeds are to be used to finance the construction of additional rooms or other enclosed space.

2. No change is made in the maximum insurable amount or in the allowed maturity of loans for repair or modernization. The FHA home repair and improvement loan insurance program is tightened up so as to require an insured lender to assume 10 percent of the risk on each individual loan. Participation is limited to approved lenders, and insured loan uses and amounts are restricted to guard against abuses.

3. New and existing housing are treated more nearly equal throughout the act except, as previously noted, the loan ratio in the case of existing housing may not exceed 90 percent (instead of 95 percent) on the first $9,000 of value, plus 75 percent of the balance in excess of $9,000, etc.

4. FHA is given authority to insure mortgages on both new and existing houses for those displaced by slum-clearance projects and urban-renewal projects, under terms and conditions generally similar to those applicable to other housing, subject to an insured mortgage limitation of $7,600 for a single-family residence which limitation may be increased by regulation of the Commissioner to $8,600 in an area where cost levels warrant the higher figure.

5. To facilitate urban planning and urban renewal plans, the Administrator is authorized to make planning grants not in excess of 50 percent of the estimated cost of surveys, land-use studies, technical services and other planning work. There is authorized to be appropriated not exceeding $5 million for this purpose.

In order to encourage municipalities and other public agencies to maintain a continuing and adequate reserve of planned public works (including other than housing), the construction of which can rapidly be commenced whenever the economic situation may make such action desirable, the Administrator is authorized to make advances to public agencies to aid in financing the cost of engineering and architectural surveys, plans, drawings, and specifications preliminary to and in preparation for the construction of public works. There is authorized to be appropriated not exceeding $10 million for this purpose.

6. The act provides for the addition of two new FHA insurance programs (sec. 220) providing a mortgage insurance program to assist in the rehabilitation of existing dwellings and the construction of new dwellings in urban renewal areas, and (sec. 221) providing a mortgage-insurance program to cover suitable housing for the relocation of people displaced as a result of governmental action in a community which has a workable program for dealing effectively with the prevention or elimination of slums and blighted areas.

7. The act continues the public housing program for an additional year at the current rate of not more than 35,000-units of new commitments to be made during the 1955 fiscal year. (These would be in addition to approximately the same number now contracted for but not started.) The new authorization is limited to communities which have slum clearance and urban renewal programs and which require housing for the relocation of persons displaced by governmental action.

8. The act raises the present maximum mortgage insurable loan from $16,000 on 1- or 2-family structures to $20,000, with appropriate differentials for 3- and 4-family units.

9. The Federal National Mortgage Association is rechartered with special emphasis given to the role of private enterprise in home mortgage financing. The three principal functions of the rechartered FNMA are:

(a) To provide assistance to the secondary market for insured and guaranteed mortgages in order to furnish additional liquidity and improve the distribution of mortgage investment funds;

(b) To provide Government assistance for certain types of mortgages or mortgages generally if necessary to retard or stop a decline in home-building activities which threaten the stability of a high level national economy; and

(c) To maintain and liquidate in an orderly manner the mortgages held in the portfolio of the present FNMA.

Provision is made for the gradual replacement of the Government investment in FNMA by private investment funds and private control by requiring lenders who sell mortgages to FNMA to purchase common stock in the organization equal to 3 percent of the mortgage.

Other congressional action of importance to the program

The Housing Act of 1954 (Public Law 560) also contains provisions which would establish a new voluntary home-mortgage credit program under which representatives of various types of financial institutions, builders, brokers, and the Government will cooperate in an organized manner to facilitate the flow of private mortgage funds into areas where needed, including remote areas and small communities.

A new program is established to assist in the provision of housing for members of the active Military Establishment who are not usually eligible for the home-loan benefits of the Servicemen's Readjustment Act by providing a 95 percent insurance program with a maximum dollar mortgage amount of $17,100.

New provisions protecting the interests of homeowners, which are designed to contribute to the long-run stability of the housing industry, require a builder's warranty in connection with new sales housing; require that FHA appraised values be made available to purchasers; and provide that FHA benefits may be denied to those violating FHA or VA statutes or regulations.

Housing construction for armed service personnel and families of $175 million was authorized (Public Law 765).

INTERNATIONAL TRADE POLICY

Recommendations for legislative action contained in Economic Report of the President

The progress already made toward liberalization of international trade and payments should be continued by vigorous efforts to reduce the remaining barriers that stand in the way.

[The recommendation, subsequently presented in greater detail in a message of March 30, 1954, House Document 360, called for a 3-year extension of the Trade Agreements Act with amendments to authorize (*a*) reduction pursuant to negotiation of existing tariff rates by not more than 5 percent of present rates in each of 3 years of the new act; (*b*) reduction by not more than one-half over the 3-year period of tariffs in effect on January 1, 1954, on products not imported or imported only in negligible volume; and (*c*) reduction over the 3-year period pursuant to negotiation of any rates in excess of 50 percent ad valorem.]

Joint Economic Committee recommendations

The committee pointed out that "we must realize that certain imports must be accepted if we are to maintain exports in those fields in which our productive capacity is superior." It went on to say that the "consensus of the committee is that a high level of imports for which payment is made without undue injury to the domestic economy will contribute to the maintenance of stability" (H. Rept. 1256, p. 12).

Congressional action on the recommendations of the Economic Report

Extends for 1 year—to June 12, 1955—the authority of the Trade Agreements Act. Limits the executive branch's authority to cut tariffs when such cuts would threaten domestic production needed for projected national-defense requirements (Public Law 464).

PUBLIC WORKS PLANNING

Recommendations for legislative action contained in Economic Report of the President

1. Extend and strengthen the federally aided highway system (p. 106).
2. The Federal Government should encourage studies of the economic feasibility of toll-road projects, together with engineering surveys, by making advances available to the States for these purposes (p. 106).
3. To assist localities in building an inventory of drawings and specifications for high-priority projects, it would be desirable to make interest-free loans for this purpose (p. 107).

Joint Economic Committee recommendations

Public works are a field in which the combined efforts of the Federal, State, and local governments, the committee emphasized, can clearly make a contribution to regularizing employment. Programs for meeting the Nation's vast requirements for highways, schools, and municipal facilities may contribute substantially to economic stability by being accelerated in times of rising unemployment. While recognizing the important contribution which public works may make in solving the unemployment problems of recession, the committee expressed concern over the small degree to which outlays on these programs can presently be stepped up by administrative action alone.

Because of the substantial time involved in securing the acceptance of a public works program in the local community and in the preparation of engineering and financial blueprints, the committee recommended that steps be taken to assure the preparation of plans as far in advance of need as is feasible and sound.

The committee also commended proposals calling for an administrator to plan and coordinate public works (H. Rept. 1256, p. 13).

Congressional action on the recommendations of the Economic Report

1. Authorized $966 million for each fiscal year 1956 and 1957 for the Federal-aid highway system, including $315 million for the primary system, $210 million for the secondary system, $175 million for the primary system in urban areas, and $175 million for the national system of interstate highways. Estimated expenditures in fiscal 1954 were $612 million. The amount authorized by Congress for 1956–57 is $345 million above the President's budget proposal (Public Law 350).

2. The Secretary of Commerce is authorized and directed to make a study of highway financing, including study of progress and feasibility of toll roads and their effects upon the Federal-aid highway programs (Public Law 350, sec. 13).

3. To facilitate urban planning and urban renewal plans, the Housing and Home Finance Administrator is authorized to make planning grants not in excess of 50 percent of the estimated cost of surveys, land-use studies, technical services, and other planning work, exclusive of plans for specific public works. There is authorized to be appropriated not exceeding $5 million for this purpose (Public Law 560).

4. In order to encourage municipalities and other public agencies to maintain a continuing and adequate reserve of planned public works (including other than housing), the construction of which can rapidly be commenced whenever the economic situation may make such action desirable, the Housing and Home Finance Administrator is authorized to make advances to public agencies to aid in financing the cost of engineering and architectural surveys, plans, drawings, and specifications preliminary to and in preparation for the construction of public works. There is authorized to be appropriated not exceeding $10 million for this purpose (Public Law 560).

Other congressional action of importance to the program

The Congress has further advanced the objectives of public works programing while going beyond the specific limits of the economic report by enacting:

(*a*) The Lease-Purchase Public Buildings Act of 1954, designed to facilitate construction of Government office and post-office building needs throughout the country (Public Law 519);

(*b*) The District of Columbia Public Works and Revenue Act, providing an expanded program of development in the District of Columbia (Public Law 364);

(*c*) Authorization for United States participation in the St. Lawrence Waterway (Public Law 358).

The proposals calling for an Administrator to plan and coordinate public works were partially met by authorizing an addition to the staff of the Council of Economic Advisers in the Executive Office of the President of a qualified individual devoting full time to the public works planning program.

Rivers and harbors improvements, flood and beach erosion control projects are authorized, amounting to $1.08 billion (Public Law 780).

An expanded 3-year $182 million program for hospital, medical center, nursing home, and rehabilitation facilities construction was authorized (Public Law 482).

Federal aid for school construction program was extended to June 30, 1957 (Public Law 731).

TAXATION AND TAX POLICY

Recommendations for legislative action contained in Economic Report of the President

1. Inequities that are present in the structure of the personal income tax should be removed promptly, for example, for widows and widowers who employ assistance for child care; families with dependent children who earn more than $600 per year; widows and widowers, with dependents, who should get the same privileges of split income as married couples; persons having heavy medical expenses; employers who contribute to medical insurance and pension plans; annuitants, who should be able to recover within their life span, free of income tax, the savings they have invested (p. 78).
2. The period during which individuals and business corporations may carry back net business losses should be increased from 1 to 2 years (p. 79).
3. Elimination of the double taxation of dividends should be begun by permitting the stockholder to credit part of the taxes paid by the corporation against his personal income-tax liability (p. 79).
4. A business should be allowed to write off the major part of the cost of a capital asset during the first half of its useful life, if it desires to do so (p. 80).
5. In the interest of fostering rapid technological progress, companies—especially small businesses—should be permitted to treat unusual research or development outlays as currently deductible business expenses (p. 80).
6. Handicaps to the accumulation of corporate earnings for expansion should be removed by placing on the Government the burden of proving that a given retention is unreasonable (p. 80).
7. Encourage investment abroad by taxing the business income of foreign subsidiaries, or of segregated branches of American corporations which operate or elect to be taxed as subsidiaries, at a rate somewhat below the current corporate rate; widening the types of foreign taxes that may be credited against the United States income tax; removing the overall limitation on foreign tax credits; permitting regulated investment companies concentrating on foreign investment to pass on to stockholders the credit for foreign taxes now available for direct individual investments (pp. 80–81).
8. Take steps to move toward a current basis of payment of corporate income taxes (p. 81).

Joint Economic Committee recommendations

The comments of the Joint Economic Committee on taxation and fiscal policy in general focused upon the need for flexibility as new developments occurred and endorsed the use of fiscal policies as a stabilizing factor in the economy.

The committee indicated "that every effort should be made for increasing the long-run incentives for enterprise and investment." As to details of legislation, the committee specifically recommended added flexibility in the treatment of depreciation allowances for income tax purposes, and that provisions for the carrying forward of net losses be liberalized. (H. Rept. 1256, p. 15.)

In the Economic Report the President announced that if unemployment continued upward he would send a supplemental emergency program to the Congress. The Joint Economic Committee commented on this, saying that "If this step is necessary, it is expected that he will recommend relief for middle- and lower-income groups by reducing the income tax and by reducing excise tax rates. Some of the members of this committee are ready now to urge these tax changes."

Congressional action on the recommendations of the Economic Report

1. The Internal Revenue Code of 1954 (Public Law 591) includes all of the various items recommended by the President for the relief of inequities among individual income-tax payers along with numerous others of a similar nature. Relief under the child care deduction is estimated at $130 million; relief in the case of certain dependents regardless of earnings at $75 million; split income for head of family at $50 million; medical expense deductions at $80 million (net); retirement income credit and special provisions for the taxation of annuitants on life expectancy basis at $151 million.

2. The period for the "carry back" of net business losses has been increased from 1 to 2 years. In combination with the 5-year "carry forward," previously permitted this provides a total span of 8 years for absorbing the loss.

3. The act provides for exclusion from taxable income of the first $50 of dividends received and the subtraction from taxes owed of a dividends-received credit amounting to 4 percent of the remainder of dividend income for dividends received after July 31, 1954, but limited to 2 percent of taxable income in 1954 and 4 percent thereafter.

4. Depreciation allowances for property acquired after December 31, 1953, are liberalized by permitting the computation of the allowance under any one of several methods considered reasonable, as follows:

(*a*) The straight-line method allowable under present law.

(*b*) The declining balance method, using a rate not in excess of twice the straight-line rate.

(*c*) Any other method consistently applied so long as the accumulated depreciation allowances for a property at the end of each year during the first two-thirds of service life do not exceed the allowances which would have resulted from the declining-balance method.

(*d*) The sum-of-the-year's digits method is allowed as a specific exception to the general rule limiting accumulated allowances.

A further provision designed to remove sources of irritation and controversy provides that where a taxpayer and the Bureau agree in writing upon a rate of depreciation for a particular property, the rate will continue until such time as additional evidence may be produced with the burden of proof resting upon the party asking for the change.

When any such change is made it will not be effective retroactively but be made only for subsequent years.

5. Research and experimentation costs may, at the option of the taxpayer, be treated as deductible expenses in the taxable year or capitalized and written off over a period of 5 years.

6. Greater precision is given to the standards to be followed in the application of section 531 (formerly section 102), the penalty tax on unreasonable accumulations where the lack of adequate standards has been in the past a reason for confusion and criticism. The so-called "immediacy test" has been eliminated by providing that "reasonable needs of the business" shall be interpreted to include "reasonably anticipated needs of the business."

The new legislation further eases the burden of the penalty tax on "unreasonable" accumulations by shifting the burden of proof as to the reasonableness of the accumulation. Heretofore the burden of proof has rested substantially on the taxpayer. Under the new law, the taxpayer may shift the burden of proof to the Government as to whether the accumulation is in excess of reasonable needs by filing a statement together with facts sufficient to show the basis upon which the taxpayer relies in establishing the reasonableness of the accumulation.

The new legislation permits a minimum accumulation of $60,000 of accumulated profits which is free from the penalty tax. Earnings in excess of the $60,000 may of course be accumulated where the accumulation is shown to be for the reasonable needs of the business.

7. The new code eliminates the overall limitations which restricts the foreign tax which may be claimed as a credit. The effect of the limitation in the past has been to discourage a company operating profitably in one foreign country from going into another country where it might expect to operate at a loss for a few years.

The new code affords additional tax relief to businessmen operating foreign business ventures other than in the corporate form by increasing from 20 percent to 30 percent the portion of the income which may be considered "earned" abroad and hence qualified for exemption from income taxes in businesses in which personal services and capital are material income-producing factors.

The act also makes a number of minor changes affecting nonresident aliens employed abroad by American firms who come to the United States for temporary periods.

8. The new code requires larger corporations to file a declaration of estimated tax and to make partial payment on account of current tax liability by the middle of the ninth month of the year and another by the middle of the last month of the same year. When the plan is fully effective, calendar year corporations will pay one-quarter of their estimated tax on September 15 of the year of tax liability and another quarter on December 15 of the same year; a quarter will be paid on March 15 of the year following and the final payment on June 15 of the following year. To facilitate the transition, the code provides for gradual shift to the new system over a period of 5 years starting in 1955, when quarterly payments on the dates indicated will follow a pattern of 5 percent, 5 percent, 45 percent, and 45 percent.

Corporations whose yearly tax liability cannot reasonably be expected to exceed $100,000 are exempt from the required declaration of estimated tax and the new tax payment schedule. The provision will thus only apply to about 20,000 corporations accounting for about 85 percent of corporate income tax liabilities.

Other congressional action of importance to the program

The President's tax proposals called for repeal of the scheduled reductions in excise taxes on April 1, 1954, pending further study of the whole excise tax structure. While a part of the scheduled reductions were postponed the Congress, taking cognizance of the prevailing economic situation, reduced rates or allowed certain excise taxes to lapse, representing an estimated $1 billion per year (Public Law 324).

The tax revision bill (Public Law 591) in addition to the provisions cited above, contained innumerable other provisions designed to provide greater equity, tax relief, and increased incentives to individuals and corporations. In the aggregate, individuals will save in the year ending in mid-1955 something over $800 million (including dividend tax relief to stockholders), and corporations will save over $500 million. Combined reductions for individuals and corporations of $1.4 billion are substantially offset in terms of Federal revenue loss by the extension of the corporate tax rate at 52 percent until next April 1, making the net tax reduction approximately $0.2 billion. Since the new Internal Revenue Code, resulting from weeks of hearings before the respective tax committees, is a long and complicated act, it is not practical here to detail the specific provisions, but only to recognize that many of them are calculated to have an important impact upon investment and consumption incentives.

O