JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTY-THIRD CONGRESS

SECOND SESSION

PURSUANT TO

Sec. 5 (a) of Public Law 304

(79th Congress)

FEBRUARY 1, 2, 3, 4, 5, 8, 9, 10, 11, 15, 16, 17, AND 18, 1954

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JOINT COMMITTEE ON THE ECONOMIC REPORT

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

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EDITORIAL NOTE

The committee invited witnesses to revise, extend, and edit their remarks in the interest of accuracy, completeness, and clarity. The printed record which follows, therefore, contains much useful supplemental material supplied after the hearings. It also necessarily differs in a few minor instances from the verbatim transcript excerpts which are included in the materials appended to the recently transmitted committee report. These differences, however, are not substantive.

The report of the committee was transmitted to the Congress on February 26, 1954, and printed as House Report No. 1256, under the following title: *Joint Economic Report:* Report of the Joint Committee on the Economic Report on the January 1954 Economic Report of the President with Supplemental Views and the Economic Outlook and other Materials Prepared by the Committee Staff.

MARCH 22, 1954.

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ADDITIONAL INFORMATION FURNISHED FOR THE RECORD

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 1, 1954

(This hearing was held in executive session of the committee, but is made a part of the printed record by mutual consent.)

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to notice, at 10:20 a. m., in room G-14, Senate Wing, United States Capitol Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman); Senators Flanders (vice chairman), Carlson, Sparkman, Douglas, Fulbright; Representatives Patman and Bolling.

Also present: Grover W. Ensley, staff director; John W. Lehman, clerk; William H. Moore, economist, and James W. Knowles, economist.

Harry Ransom, assistant to Secretary Douglas; and Dean A. Gardner, staff assistant to Senator Watkins.

Chairman WOLCOTT. We have with us this morning Mr. Hughes, Deputy Director of the Bureau of the Budget. We are very glad to have you here, Mr. Hughes, and I think you know about what we want. We want a general picture, an overall picture, of conditions as they exist now, and as we expect them to develop throughout the months. You may proceed in any way that you see fit with any statement you have. You may expect also that the committee members will ask you such questions as they desire as we go along.

Before doing so, there will be placed in the record the press release and the schedule with respect to the hearings.

(The document referred to follows:)

JOINT ECONOMIC COMMITTEE ANNOUNCES IMMEDIATE HEARINGS ON THE PRESIDENT'S ECONOMIC REPORT

Representative Jesse P. Wolcott (R. Mich.), Chairman of the Joint Committee on the Economic Report, today made the following announcement of a series of hearings and panel discussions that the Joint Economic Committee will begin immediately in connection with its review and analysis of the 1954 Economic Report of the President which was transmitted to Congress yesterday by President Eisenhower:

"The committee will hear first from Dr. Arthur F. Burns, Chairman of the President's Council of Economic Advisers, who meets with members in executive session today (January 29). He will be followed next week by key officials in the administration who will discuss the economic situation and outlook and the President's economic program. Included in the group invited to appear are the Director of the Bureau of the Budget; Secretary of the Treasury George M. Humphrey; Chairman William McC. Martin, Jr., of the Federal Reserve Board; Secretary of Agriculture Ezra Taft Benson; Harold E. Stassen, Director of the Foreign Operations Administration; and the heads of the major Government statistical agencies in the economics field.

"Beginning Monday, February 8, the committee will meet with panels of technicians who will discuss the economic outlook and implications for Federal economic policy in private investment, consumption, State and local government activity, agriculture, foreign economics, and savings and finance. Two additional panels will be held on February 17 and 18. The first of these will provide an opportunity for discussion by representatives of economic groups. Leaders of labor, agriculture, business, and research organizations have been asked to present their views, either as part of this panel or in written comment to the committee. Other interested groups have also been invited to submit their written views for the committee's consideration. The final panel on February 18 will summarize the overall economic outlook and appraise the President's economic recommendations.

"The panel discussions will be open to the public and each of the first five panels will have available a Government technician to assist with the statistical background and other basic materials. Each panel member has been asked to make a brief opening statement summarizing his views on a particular phase of the assigned subject. Following these preliminary statements, all members of the panel will participate in responding to the committee's questions.

"The Joint Economic Committee, which was established by the Employment Act of 1946, is directed by that act 'as a guide to the several committees of the Congress dealing with legislation, not later than March 1 of each year * * * to file a report 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.' Since the President's report has been received late in January, the committee is making extensive use of the panel device to help it quickly bring to focus the different points of view about these major segments of economic activity."

A daily schedule of subjects to be covered, places of meeting, list of witnesses and panel members is attached for your convenience.

COMMITTEE OFFICES

G–14, Senate Wing, Capitol
Code 190, extension 43 or 1518

For publications:
10–B, Senate Office Building
Code 190, extension 1609 or 1623

SCHEDULE OF HEARINGS ON THE PRESIDENT'S ECONOMIC REPORT AND AGENDA FOR PANEL DISCUSSIONS

(Note.—All hearings and panel discussions are open to the public unless otherwise indicated.)

Friday, January 29 (executive session), room G–14, Senate wing of the Capitol:
10 a. m.: Arthur F. Burns, Chairman, Council of Economic Advisers.
Monday, February 1 (executive session), room G–14, Senate wing of the Capitol:
10 a. m.: Rowland R. Hughes, Assistant Director, Bureau of the Budget.
Tuesday, February 2, room 1301, New House Office Building:
10 a. m.: George M. Humphrey, Secretary of the Treasury.
Wednesday, February 3, room 1301, New House Office Building:
10 a. m.: William McC. Martin, Jr., Chairman, Federal Reserve Board.
Thursday, February 4, room 1301, New House Office Building:
10 a. m.: Ezra Taft Benson, Secretary of Agriculture.
2:30 p. m.: Harold E. Stassen, Director, Foreign Operations Administration.
Friday, February 5, room 1301, New House Office Building:
10 a. m.: Panel discussion on the labor force and related statistics:
A. Ross Eckler, Deputy Director, Bureau of the Census.
Ewan Clague, Commissioner, Bureau of Labor Statistics.
Robert C. Goodwin, Director, Bureau of Employment Security.

Monday, February 8, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the private investment outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Plant and equipment: Dexter M. Keezer, director, department of economics, McGraw-Hill Publishing Co., Inc., New York City.
    - Residential construction: Walter Hoadley, economist, Armstrong Cork Co., Lancaster, Pa.
    - Inventories: Edwin B. George, director, department of economics, Dun & Bradstreet, Inc., New York City.
    - Investment, Productivity, and the problem of a balanced economy: Stanley H. Ruttenberg, director, department of education and research, Congress of Industrial Organizations, Washington, D. C.
    - Taxation and private investment: George Terborgh, director of research, Machinery and Allied Products Institute, Washington, D. C.
    - General: M. Joseph Meehan, Director, Office of Business Economics, Department of Commerce, Washington, D. C.

Tuesday, February 9, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the consumption outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Consumer income, expenditures, and savings: Rensis Likert, director, institute for social research, University of Michigan, Ann Arbor, Mich.: Gordon B. Hattersley, vice president, Sears, Roebuck & Co., Chicago, Ill.
    - Consumer nondurable goods: A. W. Zelomek, president, International Statistical Bureau, Inc., New York City.
    - Consumer durable goods: George P. Hitchings, manager, economic analysis department, Ford Motor Co., Dearborn, Mich.
    - Taxation and consumption: Gerhard Colm, chief economist, National Planning Association, Washington, D. C.
    - General: Mrs. Aryness J. Wickens, Deputy Commissioner, Bureau of Labor Statistics, United States Department of Labor, Washington, D. C.

Wednesday, February 10, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the State and local government outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Public facility needs in general: Robert L. Moses, city construction coordinator of the city of New York, New York City.
    - City government: Clarence Elliott, city manager, Kalamazoo, Mich.
    - State government: Roger Freeman, special assistant to the governor, State of Washington, Olympia, Wash.
    - State and local finance: George Mitchell, vice president, Federal Reserve Bank, of Chicago, Chicago, Ill.
    - General: Allen D. Manvel, Chief, Governments Division, Bureau of the Census, Washington, D. C.

Thursday, February 11, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the agricultural outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Relation of agriculture to the general economy: J. Kenneth Galbraith, professor of economics, Harvard University.
    - Production and domestic and foreign demand: Louis Bean, economic consultant, Washington, D. C.
    - Flexible versus rigid price supports: L. J. Norton, professor of agricultural economics, University of Illinois; C. Clyde Mitchell, Jr., chairman, department of agricultural economics, University of Nebraska.
    - Relation of agricultural policy to foreign economic policy: Lawrence W. Witt, professor of agricultural economics, Michigan State College, East Lansing, Mich.
    - General: Oris V. Wells, Administrator, Agricultural Marketing Service, Department of Agriculture, Washington, D. C.

Monday, February 15, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the foreign economic outlook related to the domestic outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Foreign investment: William Adams Brown, Brookings Institution, Washington, D. C.
    - Commercial and trade policy: Howard Piquet, senior specialist, Legislative Reference Service, Library of Congress, Washington, D. C.; Claude Murchison, economic adviser, American Cotton Manufacturers Institute, Inc., Washington, D. C.; O. Glenn Saxon, professor of economics, Yale University, New Haven, Conn.
    - Adjustment problems: Elmer F. Cope, international representative, United Steelworkers of America, Pittsburgh, Pa.
    - General: Raymond Vernon, Deputy Director, Office of Economic Defense and Trade Policy, Office of the Assistant Secretary for Economic Affairs, Department of State, Washington, D. C.

Tuesday, February 16, room 318, Senate Office Building:
- 10 a. m.: Panel discussion on the savings and finance outlook and implications for Federal economic policy.
  - Participants and topics for discussion:
    - Savings and institutional sources of funds: Gordon W. McKinley, economist, Prudential Insurance Company of America, Newark, N. J.
    - Bank sources of funds: Arthur A. Smith, vice president and economist, First National Bank in Dallas, Dallas, Tex.
    - Monetary policy: Lawrence H. Seltzer, professor of economics, Wayne University, Detroit, Mich.; Roy Reierson, vice president and economist, Bankers Trust Co., New York City.
    - General: Winfield W. Riefler, Assistant to the Chairman, Federal Reserve Board, Washington, D. C.

Wednesday, February 17, room 318 Senate Office Building:
- 10 a. m.: Panel discussion by representatives of economic and research groups.
  - The following individuals have been invited to participate in the panel discussion or present written statements for the consideration of the committee:
    - George Meany, president, American Federation of Labor.
    - W. P. Kennedy, president, Brotherhood of Railroad Trainmen.
    - Walter Reuther, president, Congress of Industrial Organizations.
    - John L. Lewis, president, United Mine Workers of America.
    - Allan B. Kline, president, American Farm Bureau Federation.
    - James G. Patton, president, The National Farmers Union.
    - Herschel D. Newsom, master, The National Grange.
    - Richard L. Bowditch, president, Chamber of Commerce of the United States of America.
    - Meyer Kestnbaum, Chairman of the Board, Committee for Economic Development.
    - Harold C. McClelland, president, National Association of Manufacturers.

Thursday, February 18, room 318 Senate Office Building:
- 10 a. m.: Panel discussion covering a general appraisal of the economic outlook and the President's economic recommendations.
  - Participants:
    - Edwin G. Nourse, economic consultant, Washington, D. C.
    - Martin Gainsbrugh, chief economist, National Industrial Conference Board, New York City.
    - Alvin H. Hansen, Littauer professor of political economy, Harvard University.

Mr. Wolcott. It would also be useful, I believe, if we would include at this point in the record a very brief summary listing of the recommendations leading toward legislative action contained in the President's Economic Report. This list, which gives page references to the President's report of January 28, has been prepared by the staff of the Joint Economic Committee and will, I believe, be useful for our reference as the hearings proceed.

THE PRESIDENT'S ECONOMIC REPORT, JANUARY 28, 1954—RECOMMENDATIONS LEADING TOWARD LEGISLATIVE ACTION

I. TAXATION

(i) Inequities that are present in the structure of the personal income tax should be removed promptly—e. g., 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).

(ii) The period during which individuals and business corporations may carry back net business losses should be increased from 1 to 2 years (p. 79).

(iii) 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).

(iv) 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).

(v) 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).

(vi) 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).

(vii) 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).

(viii) Take steps to move toward a current basis of payment of corporate income taxes (p. 81).

II. GOVERNMENTAL AIDS TO HOUSING

(i) Broaden the area of permissive action by authorizing the President to regulate, within appropriate statutory limits, the maximum loan-value ratios, terms of maturity, and interest rates on FHA-incurred and VA-guaranteed loans of all types (p. 84).

(ii) 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).

(iii) Make FHA mortgage insurance terms on existing houses more nearly comparable with those available on new houses (p. 85).

(iv) Give FHA explicit authority to insure loans in renewal areas for both new and existing structures (p. 86).

(v) 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).

(vi) Make mortgage loan insurance available on especially liberal terms for families displaced as a result of slum clearance or urban renewal activities (p. 86).

(vii) Continue the public housing program (p. 86).

(viii) Raise mortgage insurance ceilings under FHA (sec. 203) from $16,000 to $20,000 with appropriate differentials for larger size units (p. 86).

(ix) 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).

III. AGRICULTURE

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

(ii) 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).

(iii) CCC borrowing authority should be increased from $6.75 to $8.5 billion (p. 94).

(iv) 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).

IV. UNEMPLOYMENT INSURANCE

(i) 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).

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

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

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

(v) 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).

V. OLD-AGE AND SURVIVORS INSURANCE

(i) 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).

(ii) Old-age and survivors insurance benefits should be increased; first, by eliminating from the earnings base the four 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).

(iii) 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).

(iv) For those with substantial OASI work records who suffer total and extended disability, benefit rights should be preserved without diminution or loss until they reach age 65 (p. 100).

VI. PUBLIC WORKS

(i) Extend and strengthen the federally aided highway system (p. 106).

(ii) 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).

(iii) 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).

VII. OTHER RECOMMENDATIONS

(i) 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 (p. 108).

(ii) 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).

STATEMENT OF ROWLAND R. HUGHES, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET; ACCOMPANIED BY J. WELDON JONES, ECONOMIC ADVISER; WILLIAM F. McCANDLESS, ASSISTANT DIRECTOR FOR BUDGET REVIEW; AND SAMUEL M. COHN, FISCAL ECONOMIST

Mr. Hughes. Mr. Chairman and members of the committee, I have no formal statement, but I am very glad indeed to be here and to be of any help I can.

This process of setting up the Economic Report and then having it considered and reviewed by the Congress is one that appeals to me very strongly as a wise and necessary thing, and I am glad that it is now in operation so far as it is at the present time.

Director Dodge, I just heard from him by phone this morning, is sorry that he is not present and with us and sends his best to you and to the committee.

The budget is, of course, a very vital and important factor in the problem which you are considering and which we all have to consider. It is no longer a side issue. We have 2 million civilians and over 3 million servicemen directly employed. We have an uncounted number of additional people that directly or indirectly get their income, or a great deal of it, in connection with Government production and Government employment, so the budget is a factor in all our calculations.

The expenditures amount to more than $400 for each man, woman, and child in the Nation, and, therefore, they have a direct impact which is also widespread.

The budget itself is the fiscal tool of the Government. It not only is an authorization or a measure of appropriation and expenditure, but it also furnishes the vehicle for the planning operation of the Government for its coming fiscal year. In other words, it is in connection with the budget that the programs and operations of the individual departments are put in focus, the important ones chosen and the less important ones dropped out, and you emerge with a Presidential administration decision as to what the executive department of the Government is proposing for the coming fiscal year.

Our objective, as stated in the Economic Report, is directed toward bringing down the scale of Federal expenditures, reducing taxes and arriving at a budgetary balance. We move toward this goal as rapidly as the national security and well being will permit.

In doing so——

Senator Fulbright. May we ask questions as we go along or should we wait until afterwards?

Mr. Hughes. Any way you wish.

Senator Fulbright. On that point, does the budget feel that it has no responsibility with regard to trying to keep the economy balanced, that its responsibility is only on the fiscal aspect of trying to—of making income and outgo meet? I mean, do you feel that is not your proper responsibility to consider the stabilization effect of a deficit or otherwise?

Mr. HUGHES. No, the budget is a part of the Presidential office and, therefore, it has a function in connection with that whole operation. Its particular emphasis is on these phases of the subject, but obviously it must consider and work with all the other parts in arriving at a final decision. But the budget is merely an arm——

Senator FULBRIGHT. Could I ask you a hypothetical question to try to clarify for myself whether or not the budget, that functions now—I am not trying to challenge your judgment at all.

Mr. HUGHES. Yes.

Senator FULBRIGHT. I was trying to find out. Let us assume for purposes of illustration that we are agreed that we are faced with a severe recession. Would you consider it proper for the budget to recommend a larger deficit? Would you consider that is your function or is that somebody else's, Dr. Burns', for example?

Mr. HUGHES. Well, I would not say it is our function exclusively. It is our function to work with Dr. Burns and the other parts of the administration in working out the wisest plan for the whole operation of the administration. We would present the whole facts as we see them.

Senator FULBRIGHT. Do you arrive at any conclusion, attempt to arrive at any evaluation about economic situation? In other words, do you tell the President or Dr. Burns that in your opinion our economy is on the downgrade or upgrade? Do you do that?

Mr. HUGHES. We are not the ones to make those decisions.

Senator FULBRIGHT. That is what I am trying to find out. You do not make such recommendations?

Mr. HUGHES. We do not hold ourselves out as economic experts.

Senator FULBRIGHT. That is what I was trying to clarify. That is not your function.

Mr. HUGHES. Although it is our function to work with all the others as a joint part of the team just the same as the quarterback and the ends and everybody else on the football team have to work together in getting the ball down the field.

Senator FULBRIGHT. As I understand it, you try to supply actual facts, such as estimates of income; that is your particular function?

Mr. HUGHES. That is more the Treasury's than ours.

Senator FULBRIGHT. Isn't that yours? I thought you did that.

Mr. HUGHES. No, the Treasury makes the estimates of income. We work with them, but the Treasury is the one that makes the estimates.

Senator FULBRIGHT. How about the estimates of outgo?

Mr. HUGHES. That is what we do.

Senator FULBRIGHT. That is what you do.

Mr. HUGHES. Yes.

Senator FULBRIGHT. You do not go further and say that if such and such happens we are likely to be in a tailspin; that is not what you do?

Mr. HUGHES. We would certainly consider that the same as any other intelligent person would, but we are not experts in that field.

Senator FULBRIGHT. I do not know who is, frankly.

Mr. HUGHES. I was hoping we would find some here in this committee. Now, the picture I can, perhaps, best—one other point I would like to make here about this budget process. As the President has said:

Progressive economic growth will be fostered by returning to the people, to spend for themselves and in their own way, the largest possible share of the money that the Government has been spending for them.

Now that, of course, is one of the background considerations of the budget we prepared.

(Subsequent to the hearing, the Bureau of the Budget supplied the following statement by Director Joseph M. Dodge as an aid in understanding the budget:)

THE PREPARATION OF THE BUDGET

As you know, the actual preparation of the budget begins nearly a year before the fiscal year to which it applies. It is presented to the Congress about 6 months before the year to which it applies.

What so often is not clearly understood is the fact that a Federal budget is built upon the work plans of the Government agencies for the fiscal year covered by the budget. Its preparation involves a study by the departments of their plans and operations, and a selection of the things they expect to be doing. These programs and activities then have to be related to expected revenues. The relationship to revenues requires a determination of priorities in expenditures which lead to the budget as presented.

The budget, as a dollar computation of the projected workload, is made up in the 6 months before the budget is finalized and presented to the Congress and covers a fiscal year beginning 6 months still later.

Every business which forecasts its operations for an approximate 2-year period in advance is subject to all the normal hazards of that type of projection. This is complicated further, in the case of the Federal Government, by its very size, by the extreme complexity of Government operations, by the diversity of its activities, and by its nationwide and worldwide spread.

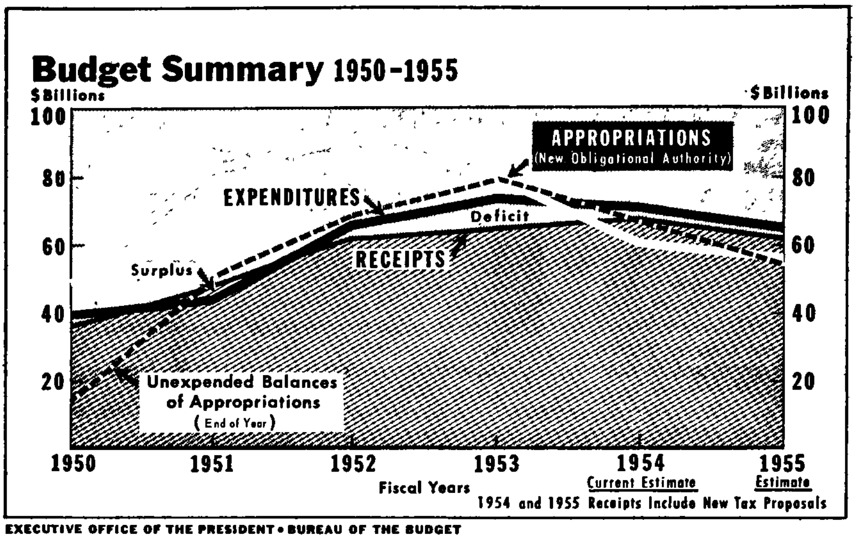
Business budget forecasts undergo continuous revision as time and special or general circumstances may affect sales volume, the prices of goods sold, the prices of goods purchased, work stoppages, unavailability of raw materials or other components, and like elements which can affect ultimate operating results.

The Federal budget is no exception. But besides being subject to factors similar to those affecting a business operation, Government has to meet special problems of its own. Inevitably the budget is, and always has been, subject to adjustments resulting from action by the Congress, from changes in programs resulting in changes in expenditures and cost of the workloads related to them, the trend of tax revenues, and similar items.

Now, the actions taken on the 1955 budget, I think, are, perhaps, more clearly shown by the first chart here, it is No. 5, the last one in your book.

Chairman WOLCOTT. Without objection, these charts may be inserted in the record.

(The chart referred to follows:)



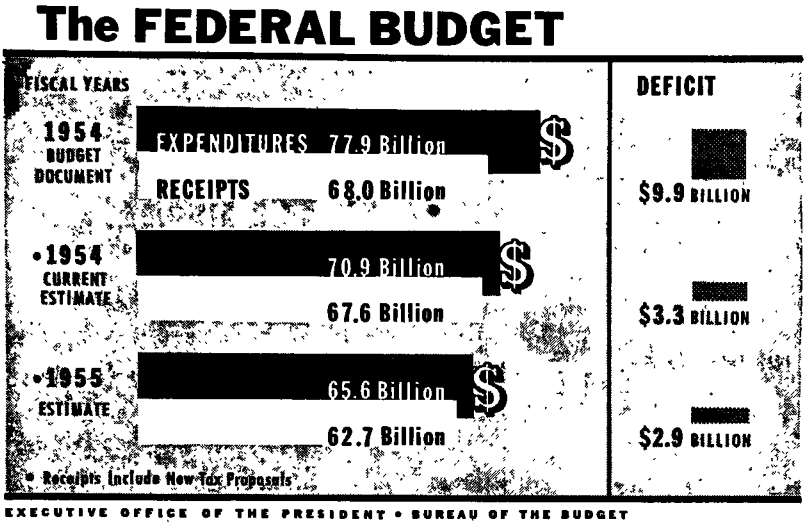
Mr. HUGHES. Yes, sir.

The course of the budgetary operations since 1951 is pretty clearly indicated by these three factors which are determinative with regard to it. Your appropriations authorizations as you see reached their peak in 1952. The expenditures here naturally followed, but at a lower scale and did not reach their peak until 1953; and then with 1954 we made reductions—although the program was a little bit different in the original 1954 budget document, presented January 9, 1953, by the previous administration. It is now estimated that the expenditures will go down slightly, and more in 1955, but still on a somewhat flattened curve. With the appropriations coming down here, it gives promise for better results in that particular for the future.

The receipts have been following up and now have likewise flattened out. In 1954, the tax changes recommended in the new budget, the carrying out of the expiration on December 31, 1953, of the excess profits tax and of the additional individual income tax, together with the revisions which are now being studied by the Ways and Means Committee in connection with the Treasury, will bring receipts down. The deficit becomes a relatively small figure as compared with some of the past ones, and in the matter of a cash income and cash outgo which is of great interest to your committee consideration, there is an approximate balance.

Now, the big items in the 1955 budget are—first, this chart shows here specifically, of course, the comparison of the deficits in the 3 years with the expenditures and receipts on a budgetary basis.

(The chart follows:)



Chairman WOLCOTT. Before you get into that, Mr. Hughes could I ask you whether you predicate these deficits or balances upon a relatively stable income, notwithstanding the reduction in taxes?

Mr. HUGHES. Yes. The figures are taking into consideration a continuation of high activity but, of course, bearing in mind the effect of some of the taxes, some of which will be encouraging and some of which, of course, will cut the revenue. The total of the revenue estimates will have to be explained in detail by the Treasury because they are the ones who are responsible for the receipt side of the budget, and we work with them as principles in determining the figures that appear on these estimates.

Chairman WOLCOTT. As you balance your estimates of outgo and their estimates of income?

Mr. HUGHES. Against their estimates of income; that is right.

Chairman WOLCOTT. It is upon these conclusions that you estimate that the cash budget will be in substantial balance.

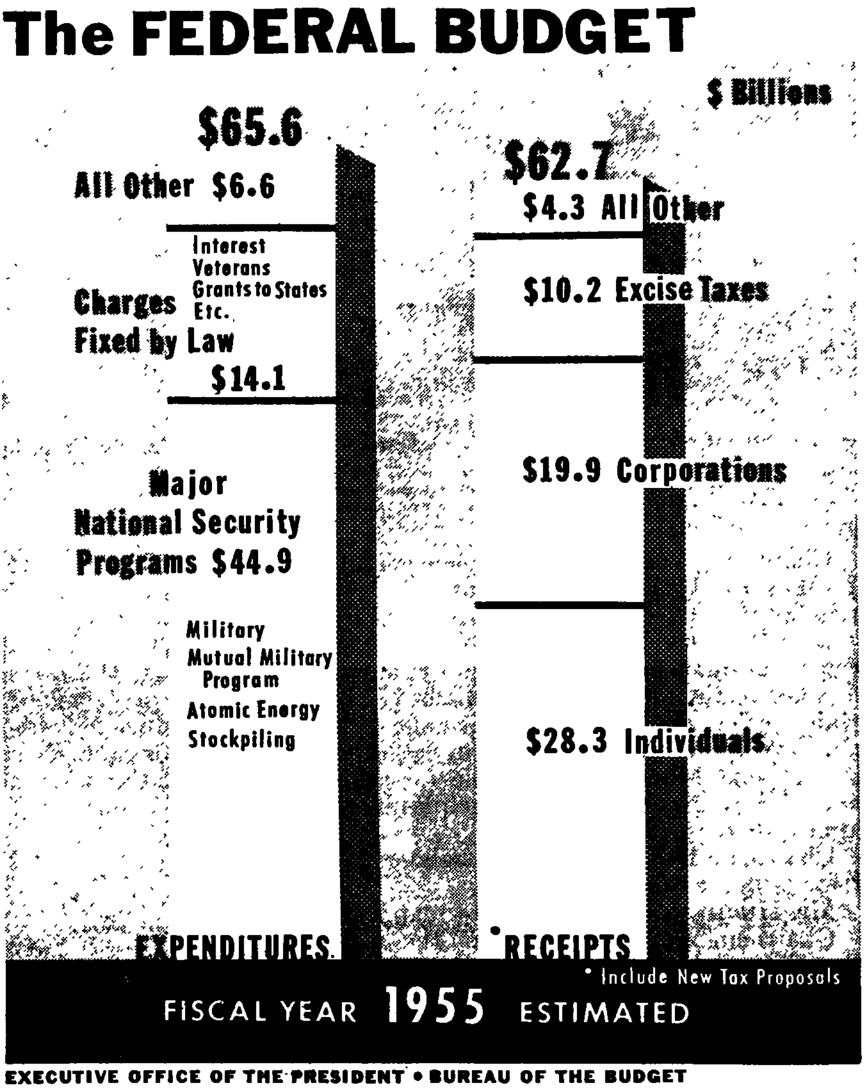
Mr. HUGHES. A little less than $3 billion.

Chairman WOLCOTT. A deficit of $3 billion?

Mr. HUGHES. On the budgetary deficit.

Now, the figures of the budget itself for the year 1955 as they are set up here show, I think, the significant facts. In the income, of course, the outstanding item is the income tax on individuals, $28.3 billion, corporations, $19.9 billion; excise taxes $10.2 billion; and all others $4.3 billion or a total of $62.7 billion.

(The chart referred to follows:)



Mr. HUGHES. Now, the main expenditures are the major national security programs, which include not only the military but the mutual military program, the atomic energy and the stockpiling, which makes a total of here $45 billion, just under $45 billion, or about 68 percent of the expenditures.

Then we have the next group, which is a very difficult thing to deal with in the budgetary operation. Those are charges more or less nondiscretionary so far as our operations are concerned. For instance, if the States perform certain functions and make certain contributions, then we match them. That is something which is not in the discretion of the Federal executive administration. Price supports are not in the discretion of the Federal departments. Interest, of course, is a matter of how many bonds are outstanding when they come to you, because you have to pay the interest when the interest comes due. That is one of the relatively unchangeable items in this total of $14.1 billion. All other expense, which is 10 percent of the total, $6.6 billion, nevertheless, represents a very large proportion in number of the day-to-day operations of the Government that you and I and all the others see, outside, of course, of the military, which is a separate field.

I might say in connection with that that these estimates are not arrived at in sort of a Sanhedrin where you must sit off in a corner somewhere and determine what it shall be. These are hammered out with the departments and all those concerned with it, and they represent a teamwork proposition of arriving at the proper amount which, in line with our fiscal goals, I mentioned to you, nevertheless enables us to do the very best job that we can with what we have available.

Senator FULBRIGHT. In that connection, with the military, do you really question what they ask? Don't you, as a practical matter, give them what they say they must have?

Mr. HUGHES. Well, of course, the President handles the military budget pretty much. He is the expert on that, and we are the arm of the President. We do have our own people to work with them in making up the figures, but that is more a matter of aiding and making sure that the estimates of projections and things of that nature fit in with the decisions. It is an aiding or helping operation rather than anything else in the military part of the budget.

We, of course, have a very deep interest in this section of the budget and we are concerned with the totals. We would question, for example, what we felt was a waste of manpower in using an excess number of people to stand around idly in Washington or in some camp somewhere or wasteful construction on buildings that were not needed in the operations of what the military said they were to be used for this military section of the budget is primarily a teamwork proposition, of course, largely set by the military. This chart shows, I think, the three parts that we had before of (1) major national security (2) the charges relatively fixed by law, and (3) all others.

Representative PATMAN. Mr. Chairman, I would like to ask some questions. You state that you are on the alert to find any expenditures that are not justified, like the use of manpower, and you try to stop that. You try to find all the savings you can, do you not?

Mr. HUGHES. We do that everywhere.

Representative PATMAN. I wrote Mr. Dodge, the Director of Budget, and called his attention to the fact that the Federal Reserve Act requires a charge to be made to member banks for clearing checks and related services. This charge was made for 2 or 3 years, and finally, for some unknown reason, they abandoned the idea. It is now costing the Government about $100 million annually to provide that service, and I suggested that the Bureau of the Budget might consider picking up that $100 million by going into this matter. His reply indicated he doubted that he had jurisdiction over it. Are you acquainted with that correspondence I had with him?

Mr. HUGHES. In some respects. I mean, he showed me the letter. He handled that himself.

Representative PATMAN. I again want to invite your attention to this problem since you are on the alert to find places where you would pick up a little money, and there is $100 million involved here.

Mr. HUGHES. Yes, sir; we are concerned, not only as you pointed out with the elimination of expenditures, but also, as you may have noticed, in putting out circulars for user charges and things of that nature.

Representative PATMAN. That is right. I commend you for it, and I think you are doing exactly right.

Take last year, when we had before us the question of the national debt, it was disclosed that we had $9 billion in the 11,000 banks in the country, and we are not drawing any interest on those deposits. It is not the banks' fault; I am not accusing them or anybody else. It is Congress' fault because Congress changed the law to forbid the payment of interest on demand deposits. The change was made in 1933 in the depth of the depression just for a temporary period, I thought, but it was never changed back. The banks still cannot pay interest on demand deposits, which of course include Government deposits. This $9 billion then is costing the taxpayers $180 million a year at the rate of 2 percent, or $270 million a year at the rate of 3 percent. Of course, at a three and a quarter rate would be even more. This money on deposit serves no good purpose for the Government, because it is not accessible to the checking authorities.

Now, the Treasurer of the United States, I assume, draws all the checks on the funds, does he not?

Mr. HUGHES. Yes, he can draw that money out any time.

Representative PATMAN. I know he can, but what I mean is that money is allowed to stay in the banks, and the banks have gotten Government bonds for a large part of it. The banks draw interest on these bonds, keep the deposits, and lend them out, too. I believe that there is also an understanding that they will always have a minimum deposit of these bonds in a bank. One bank that I know of, had $250,000, another smaller bank, about $70,000. There was the understanding that they would always have at least $70,000 in that bank. It occurs to me that is just an absolute waste of public funds.

You know when the Federal Reserve Act was passed, it was contemplated that the subtreasuries would be abolished. They had nine subtreasuries in the United States, which were the fiscal agents of the United States Government. Checks were drawn on these subtreasuries. But when the Federal Reserve Act was passed, the Federal Reserve System was to be the fiscal agent and the money was to go directly into the 12 Federal Reserve banks where it could be checked on and used. I do not know who is responsible for this change and I am not saying it is a political matter. It is not. I am sure both parties have been guilty if there is any wrongdoing at all, because it has been over a period of more than 35 years that it has happened.

We get into this ridiculous situation, it occurs to me, of letting the banks get Government bonds and really just create the money on the books of the banks to buy those bonds. Then they not only keep the bonds and draw interest on them, but they keep the money and lend it out, so now if Congress is going to do business that way, I think maybe you ought to have more business in government. It just does not make sense to me.

It occurs to me that, being on the alert and trying to find ways of saving money, you ought to inquire into this.

Mr. HUGHES. That is a subject, of course, for very large discussion.

Representative PATMAN. I know, but you are a large organization, you know.

Mr. HUGHES. We are not so large as to cover the world that way. We do cover it in many different ways.

Representative PATMAN. I am asking Mr. Dodge through you to give that consideration.

Mr. HUGHES. All right; I will pass that on to Mr. Dodge.

Representative PATMAN. I mean to give consideration to both questions, the $100 million and the $270 million. There is $370 million right there that you are just running over and paying no attention to.

Mr. HUGHES. We have to consider, of course, many pros and cons. It covers a wide field, as has been brought out by these many commissions that have gone over it these many years.

Senator CARLSON. Mr. Chairman, before we leave that point—I am sorry I missed the previous discussion.

Chairman WOLCOTT. I want to say to you that we welcome you to this committee.

Senator CARLSON. May I say, Mr. Chairman, that I am honored by being appointed to this committee, and I am going to try to conduct myself so as not to embarrass the committee.

Chairman WOLCOTT. Thank you, Senator Carlson.

Senator CARLSON. Mr. Chairman, for my own information now, Mr. Patman has been discussing these funds that are in, I assume you call them, "subtreasury accounts."

Representative PATMAN. That is right; that is before the Federal Reserve Act.

Senator CARLSON. Are they used for checking?

Representative PATMAN. That is right; they were used for checking.

Senator CARLSON. Are they used now for checking? That is what I want to know.

Mr. HUGHES. Ordinarily they are transferred out more or less for checking. I mean, whenever they want to draw a check on the Federal and need more money, they just have the banks pay it into the Federal. It is sort of an indirect operation; I do not think in most cases they draw directly on the account.

Representative PATMAN. You say they draw more or less on these banks?

Mr. HUGHES. In some.

Representative PATMAN. Name 1 out of 11,000 that they have drawn on?

Mr. HUGHES. I say, there are some accounts where they do draw directly.

Representative PATMAN. Name one, outside of the Federal Reserve.

Mr. HUGHES. Well, I cannot name any offhand, but I do know there are checks that have gone out, payroll checks.

(Subsequent to the hearing the Budget Bureau supplied the following information in clarification of the preceding discourse:)

The deposits in Treasury tax and loan accounts in the approximately 11,000 special depositaries are drawn upon for transfer to the Federal Reserve banks as the money is needed for current Government disbursements. Calls are usually made twice a week. In addition, there are some general depositaries which transfer receipts regularly, without the necessity of a call, into the Federal Reserve banks. There are also accounts of the United States Treasurer in about 15 banks in the continental United States, against which Government checks are charged directly without clearance through the Federal Reserve System. These checks are primarily for payroll requirements for certain military installations; the banks are located at such points as Norfolk, Va., Newport, R. I., and Pensacola, Fla. Accounts of the United States Treasurer in banks in the Territories and in foreign countries are also charged directly with most Government checks paid through those banks. In addition, disbursing officers of some Government-owned corporations, a number of postmasters, and disbursing officers in some other agencies maintain their own accounts in various banks in continental United States from which expenditures are also made directly.

Senator CARLSON. The reason I bring that up is, as Governor of a State, we operated on a somewhat similar basis; we used the subtreasuries as Treasury accounts. It is the way we operated, but I do not know whether the Federal Government is doing that or not.

Representative PATMAN. They are not doing it. They put it beyond their reach. They do not check on this. Mr. Hughes is mistaken on this—he is or I am, one. If you are right about it, I want to find out.

Mr. HUGHES. I want to make some investigations on it.

Representative PATMAN. I am not saying you are wrong.

Mr. HUGHES. It is, in effect, the same thing as a checking account.

Representative PATMAN. It is not the same thing because it is beyond your control. You have to take another action before you can get it; you have to draw it out of one bank and put it in another before it is available for checking.

Chairman WOLCOTT. Mr. Patman, I suggest that we are going to have Secretary Humphrey testify.

Representative PATMAN. That is right. I am not going to pursue it, and that is the reason I have invited the Director of the Budget's attention to it.

Senator DOUGLAS. We would be very interested in finding out the size of the deposits of the biggest 20 banks and amounts of Government bonds deposited in each.

Representative PATMAN. They are enormous, and about a fourth of the deposits are in the New York banks, which is all right if they need it. I am not fighting the case of the New York banks.

Senator SPARKMAN. Was there not a listing of the banks given some time last year?

Mr. HUGHES. Yes.

Senator SPARKMAN. With the amounts in each.

Representative PATMAN. Adding insult to injury, they are going to take the commodity credit loans and put them into the banks. The banks, of course, will just keep that money and keep the commodity credit certificates, too, and draw interest on the certificates of interest, and keep the money there to lend out. This is another question that comes up tomorrow. Secretary Humphrey says we need $9 billion for commodity credit. They only have about $3.8 billion now.

Senator FULBRIGHT. You did not specify what the $100 million included. You mentioned a figure. What is the $100 million?

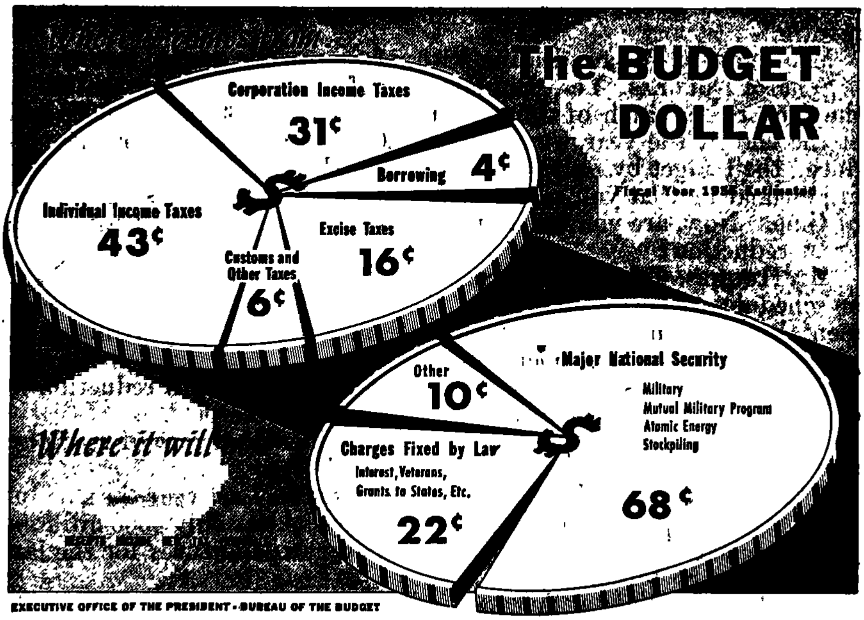
Representative PATMAN. There are great trucks with armed guards carrying checks, and checks going by airmail, all part of clearing checks for the private banks. It is strictly a private banking function, and they are paying for it out of Federal Reserve funds that would flow back into the Treasury, were it not intercepted by that payment of $100 million a year. This was never intended; it was intended that the banks perform this function, and they did for 2 or 3 years before, for some unknown reason they finally changed to this other way.

Senator FULBRIGHT. You are saying what they should do is to pay the Federal Reserve the cost of the service, the private banks?

Representative PATMAN. Yes; that is what the law says; it is plainly contemplated in the law. Yet here we build up $100 million subsidy for the member banks. All the banks do not get the benefit of it, just the member banks, and they represent only about 40 percent of all the banks.

Mr. HUGHES. This other chart here, I think, is the only other one—there is nothing special here except the usual pie chart of the source of income and the places where it goes, so that it just visualizes those facts that we have been talking about in the other earlier presentation.

(The chart referred to follows:)



Mr. HUGHES. Now, there is one other thing about the budget which I would like to mention at this time, because I think it has a bearing with regard to your particular responsibility. That is that we have shown more clearly than ever before the total operations of the budget. In other words, instead of merely showing a net figure, for example, of the loaning operations where they are handled on a system that permits the agency to use money which it receives from loan A to make a loan to Mr. B, we now show the total of the new loans, which are the new commitments of the Government, and show the receipts separately. Of course, it gets down to a net figure which is the same as it was on the old basis. There is no change in the net figure, but it does show more clearly what the Government is doing in connection with these operations, which was not very definitely shown in the previous presentations.

Chairman WOLCOTT. I called Mr. Hughes' attention to certain things we had tried to develop in years gone by, and which we are asking him now to develop as a preliminary to our studies.

Mr. HUGHES. Before we go into that, are there any further questions about the budget? I take it you are pretty familiar with the budget itself, so I did not go into the makeup of the individual items or anything of that nature.

Senator DOUGLAS. May I ask a question about the budget, Mr. Hughes?

Mr. HUGHES. Yes, sir.

Senator DOUGLAS. You estimate for the current year the deficit will be $3,300,000,000?

Mr. HUGHES. That is right.

Senator DOUGLAS. The Treasury report for the 27th of January has a deficit as of that date of $9,400,000,000. So you evidently believe the deficit is going to be reduced by $6,100,000,000 in the next 5 months?

Mr. HUGHES. We are dealing with, of course, the annual figures.

Senator DOUGLAS. Yes. But last year, if I may call your attention to the fact, on the 27th of January the deficit was $9,700,000,000, and at the end of the year was $9,400,000,000, so that last year they reduced the budget by only $300 million in the last 5 months; but you are estimating that you can reduce it by $6 billion in the same period of time. Now, are you not, a little bit optimistic in predicting such a great reduction?

Mr. HUGHES. I do not think so. The figures are all, of course, based on schedules of the expenditures for all the different phases of governmental operations, including such common things as payrolls, supplies, and construction operations.

Senator DOUGLAS. That is, you expect to get this by a reduction in expenditures rather than by an increased rate of receipts?

Mr. HUGHES. Of course, there will be an increased rate of receipts; there always is in the second half of the fiscal year.

Senator DOUGLAS. Why more than last year? Last year the surplus receipts over expenditures for the last 5 months was only $300 million; you are scheduling an excess of receipts over expenditures for the last 5 months of $6 billion.

Mr. HUGHES. Yes; well, I have not analyzed that month by month, on that basis, but I do know the receipts for the second half are expected to bring it up to the annual figures that we have in the budget, and that the expenditures, when you take the expectation for the rest of the period, together with what we have done, will bring it to the total that we have.

There is one other thing about the Treasury daily statement that should be remembered, and that is that it is on a somewhat different basis than the actual budget expenditures, because it is on a mixed basis.

Senator DOUGLAS. Well, I am simply speaking of the so-called administrative budget——

Mr. HUGHES. Yes.

Senator DOUGLAS (continuing). Where you spent $39,400,000,000 in the first 7 months, approximately.

Mr. HUGHES. Yes.

Senator DOUGLAS. How much do you budget for the year, as a whole?

Mr. HUGHES. It is on page M-7 here. We expect expenditures to be $70,900,000,000.

Senator DOUGLAS. Are you going to bring this down to $31 billion for the next 6 months, and effect a reduction of $8 billion there or are you counting on a great increase as compared with last year in receipts?

Mr. HUGHES. Well, it will be an increase also in receipts; $67,600,000,000 is estimated on the receipts side.

Senator DOUGLAS. How did you get this great increase in receipts in the last 5 months as compared with the last year? You see, last year the excess of receipts over expenditures in the last 5 months was only $300 million. You are saying you are going to have an excess of approximately $6 billion in the last 5 months of this year, so it is on that assumption you get a deficit of only $3,300,000,000.

Mr. HUGHES. Well, of course, time will prove that, but we are confident that those figures are correct.

Representative PATMAN. You are talking about the last half of the fiscal year?

Senator DOUGLAS. That is right.

Mr. HUGHES. Yes.

Senator DOUGLAS. I am willing to predict that you will not get the deficit down as low as $3,300,000,000. In fact, I predict it will be at least $5 billion, I would even be willing to suggest it might run as high as $6 billion.

Mr. HUGHES. Will you couple that with the assurance that there will be no changes made by the Congress that would change that figure?

Senator DOUGLAS. That would be even on the assumption that there is no reduction in taxes beyond the reductions which automatically went into effect the first of the year.

Mr. HUGHES. No increased expenditures for the year.

Senator DOUGLAS. Congress will not increase the expenditures for this year; that has already been done, unless you come up with emergency appropriation bills that you demand.

I think that $3,300,000,000 figure, I must say with all kindness, is a little phony.

Senator SPARKMAN. Senator Douglas, have you taken into consideration the transition that is being made in the method of paying corporation taxes?

Senator DOUGLAS. That will increase it somewhat, but you see the extraordinary contrast; last year it went to $300 million in 5 months. I thought that some of those who believed in the $3,300,000,000 deficit were going to challenge my predictions.

Mr. HUGHES. We will see how you come out.

Of course, there is one other factor, too; in calendar year 1953, as compared with 1952, the corporate income is considerably higher.

Senator DOUGLAS. That is true, but on the other hand you have effected a 2.2 percent reduction on basic income tax which will have some effect on payments you had during the 6 months, and we normally think of a 1 percent in the basic tax as being the equivalent of between the $800 million and $1 billion in revenue for the full year, so for a half year for 2.2 percent there would be a loss of around $800 million to $1 billion in revenue, which offsets, to some degree, the higher corporate profit of 1953 which will be paid in 1954.

Mr. HUGHES. The only thing I know about is the expenditure side, and we are satisfied that our figures will come out.

Now, on the receipts side, you will have to talk with the Secretary of the Treasury, and he will undoubtedly be able to talk with you on that side. But on the expenditures, I am satisfied that this figure is a good one.

Senator SPARKMAN. May I ask, for my own information, the 2.2 percent reduction in basic income tax, did you mean individual or corporation?

Senator DOUGLAS. You went on the 1st of January from 22.2 to 20.

Senator SPARKMAN. That is individual?

Senator DOUGLAS. That is individual. That applies to the first 6 months of 1954.

Mr. HUGHES. That is right.

Senator DOUGLAS. This will mean reduced revenues for the current fiscal year, and we normally think that each 1 percent for a full year is the equivalent of somewhere between $800 million and $1 billion, so that 2.2 for a half year would be roughly the equivalent of 1 percent for a full year, or a loss of revenue of from $800 million to $1 billion, yet in spite of that loss of revenue you are counting on a $6 billion greater reduction of the current deficit than was true last year?

Mr. HUGHES. That is true.

Senator DOUGLAS. I think you are extremely optimistic.

Senator FULBRIGHT. It makes good reading; it sounds well.

Senator DOUGLAS. It sounds well for the public, but it would be interesting to check up on the 2d of July, to see what actually happened.

Mr. HUGHES. Of course, you cannot do that unless the program is continued as proposed, and if that is continued, I feel quite confident we are on sound ground.

Now, you asked a question, Mr. Chairman, whether or not the assumptions or calculations are made on a common basis.

Chairman WOLCOTT. Possibly I had better read the question to you for purposes of the record, Mr. Hughes.

Mr. HUGHES. Yes, sir.

Chairman WOLCOTT. At previous hearings on the President's economic program the Budget Director has given the committee a statement on the economic assumptions underlying the President's budget. It is our understanding that revenue estimates are based upon the continuation of business conditions, personal income, and corporate profits at substantially the present high levels.

Could you give us the asumption of personal income payments and corporate profits in calculating the revenue payments? What are the unemployment assumptions of estimates for advances to States for unemployment compensation? What price assumption was assumed in calculating expenditures? Are all estimates in the budget consistent with respect to the basic economic assumptions? Would you care to discuss that?

Mr. HUGHES. I would answer the last part of it first: that is so. They are all on a consistent basis, both with Economic Council and with the Treasury and the Budget Bureau, so that, as stated in the budget document itself, it assumes fairly stable conditions internally and externally during the period it covers.

This is for a period beginning, of course, July 1, 1954, and we have taken more or less the continuation on that basis of the present level of economic activity.

Now, with regard to the estimates of the Treasury and what they have used, I think that the Secretary of the Treasury had better do that because he makes those estimates, and he knows the basis for them.

Our estimates of activity and employment are in accordance with their assumptions of a continuation of somewhat the same level that we have had, with some slight margin there for unemployment, but not a major change in the situation.

Chairman WOLCOTT. Where do you get your estimate on unemployment?

Mr. HUGHES. All the assumptions were developed in cooperation with the Council of Economic Advisers.

Senator DOUGLAS. How much average unemployment do you estimate for the year 1954?

Mr. HUGHES. I think it is around 2 to 2½ million, about that much.

Senator DOUGLAS. Somewhere there is a statement that the budget is based upon an assumption of high levels of employment.

Mr. HUGHES. That is right; that is in the income.

Mr. ENSLEY. That is on page 28.

Mr. HUGHES. Page M28, budget receipts, at the top of the page.

Senator DOUGLAS. I had understood that it was based on 2,000,000 unemployed. That is substantially the present high level: unemployment for December was 1.8—1.9. Do you think this estimate may have been an unemployment as high as 2, 2½?

Mr. HUGHES. Yes. Some estimates allow a little more margin than others, but it is in that neighborhood.

Senator DOUGLAS. And there will be virtually no slump in production or incomes?

Mr. HUGHES. Well, practically at a continuation——

Senator DOUGLAS. At the levels of December?

Mr. HUGHES. That is right.

Senator DOUGLAS. So that if there should be a slump in volume of sales or incomes, the receipts from excise and the customs revenues, if they would diminish, and corporation profits and income receipts would decline also——

Mr. HUGHES. Naturally they would all have an effect.

Senator DOUGLAS (continuing). That would increase the deficit.

Chaiman WOLCOTT. That is an assumption that you take into consideration.

Mr. HUGHES. Yes. I mean, we have made an assumption.

Senator DOUGLAS. They have disregarded it.

Mr. HUGHES. We have not assumed it.

Senator FULBRIGHT. What have you assumed in estimating the $3.3 deficit whatever that deficit is?

Senator FULBRIGHT. Is that exactly the same, or is it 5 percent less or 10 percent less?

Mr. HUGHES. Of what?

Senator FULBRIGHT. Of existing levels of business.

Senator DOUGLAS. Of December levels. You made up the budget in December, presumably?

Mr. HUGHES. Of course we do not deal with 1 month's figures, but it is made up on the basis of a continuation on the general level, the way it is now; there is some margin in there of different figures.

Senator FULBRIGHT. You did not assume any particular decrease in the level of production?

Mr. HUGHES. That is right.

Senator SPARKMAN. May I ask, on that level of production, now you say you do not level it off according to any one job of the month. Do you take the average of last year or what? You say on the general level. Now, from what is that level measured?

Mr. HUGHES. Well, it is not a level as of today; it is a level currently in operation.

Senator DOUGLAS. That was in December.

Mr. HUGHES. Well, of course, we worked up these figures before December.

Senator DOUGLAS. So it may have been as far back as November.

Senator SPARKMAN. It started last September.

Senator FULBRIGHT. With approximately 2 million unemployed?

Mr. HUGHES. More or less that basis.

Senator FULBRIGHT. Is that about what you consider to be a normal unemployment?

Mr. HUGHES. Well, I do not know whether "normal" is the right word, but anyway that is our basis for not considering that there is likely to be any tremendous or any marked change in the general picture as compared with what we have been having.

Senator FULBRIGHT. May I ask, supposing it goes to 4 million; would that make any appreciable difference and call for any adjustment in your treatment?

Mr. HUGHES. Undoubtedly.

Senator FULBRIGHT. Any substantial——

Mr. HUGHES. It depends on whether, of course, it was for a period or whether it was just a temporary bulge.

Senator CARLSON. Mr. Chairman, the point of unemployment, I have just been out in the State of Kansas now for 60 days. At the end of this month we have done very little, if any, highway construction, and we have generally a very large program in our State, and I assume every State has. I was talking with contractors over the weekend, and they are all going to start full schedules again within the next 15 days; I assume that would offset some of the other phases.

Mr. HUGHES. That is right.

Senator CARLSON. And farm labor is beginning to pick up, so there are compensating features both ways on this. I mean there is some unemployment, but there will also be some new employment picking up; I assume it would.

Mr. HUGHES. That is right.

Chairman WOLCOTT. I believe during the hearings it will be developed that the administration is concerned about this, and has prepared for it.

Mr. Hughes, do you agree that the President's program, if taken as a whole, has as its purpose the taking up of any slack, that might develop in employment——

Mr. HUGHES. The President has stated——

Chairman WOLCOTT (continuing). To keep production and income high so that you are justified in using these estimates predicated, I presume, upon the success of the President's overall program.

Mr. HUGHES. That is right. He has stated very specifically that he will be ready, if there is a need, for any emergencies, to use emergency methods, but we do not believe in putting in emergency methods when there is not the emergency.

Chairman WOLCOTT. It seems to me I saw that all the way through the President's message on housing, for example which came in here last week.

Mr. HUGHES. There are plenty of things that can be done, as brought out in the Economic Report, if we have to do them, but the main thing, of course, is to develop the atmosphere and the climate that permits people to really do a job for themselves, to build these things and keep going at our present activity or level.

Chairman WOLCOTT. Does the Bureau of the Budget believe that there is much justification for the contention that we are now in a recession leading to a depression?

Mr. HUGHES. We do not see it as far as our operation and observation and statistics are concerned.

Senator DOUGLAS. There is not now a recession?

Mr. HUGHES. That is right; and this is not built on the basis of expecting one.

Chairman WOLCOTT. Is the period through which we are going in any different from that which we should have expected when and if we finally stopped the inflationary escalator?

Mr. HUGHES. I do not quite understand.

Chairman WOLCOTT. Did we not have every reason to expect that when we stopped inflation there would be some adjustment period?

Mr. HUGHES. Oh, yes; there will be adjustments in this thing and that thing and the other thing as you go along. The point is the general recession that you are talking about, I take it, the adjustments and corrections of individual——

Chairman WOLCOTT. I am not talking about a general recession anyway. I am suggesting—I want to be sure, Mr. Hughes, whether you think there is a justification for the contentions, political or economic, that we are in a recession and likely to go into a depression.

Senator DOUGLAS. What was the last phrase?

Chairman WOLCOTT. Or is this not an adjustment period which we are going through which we had a right to expect and should have expected following the stopping of inflation?

Mr. HUGHES. That is right; and the President says he can see the end. That is our viewpoint.

Chairman WOLCOTT. Do you think his program is aimed toward that end?

Mr. HUGHES. Yes, sir.

Representative BOLLING. Mr. Chairman, excuse me, if you are not finished, I will not interrupt.

Chairman WOLCOTT. I have got one or two other things, but while we are on that subject, go ahead.

Representative BOLLING. It seems to me there is a good deal of importance in the definition of terms. I gather that the fashionable word in some circles is "adjustment," but is it not fair to say that we are in a period of contraction now?

Mr. HUGHES. Contraction of what?

Representative BOLLING. Economic contraction, a contraction in the economy.

Mr. HUGHES. I would not say so.

Chairman WOLCOTT. I think you should explain to him that Dr. Burns used the words "contraction" and "expansion."

Mr. HUGHES. As I understand contraction——

Senator DOUGLAS. Take carloadings; that is supposed to be one of the most sensitive indices. They were 697,000 units the corresponding week of last year; it was 617,000 units in the corresponding week of this year which was, I think, January 23, or a decline of between 11 and 12 percent. Do you say that it is not a contraction?

Mr. HUGHES. You can show, of course, figures of various kinds, but carloadings——

Senator DOUGLAS. What about steel, the production of steel?

Mr. HUGHES. I am not an expert on all those factors, but from the overall picture I would say——

Senator DOUGLAS. There is no contraction?

Mr. HUGHES. If I understand what you mean by "contraction."

Senator DOUGLAS. That is a decrease in employment and production.

Mr. HUGHES. Not of a substantial way to affect us.

Senator DOUGLAS. When does it become substantial?

Senator FLANDERS. Mr. Chairman, it seems to me that some of these questions might better be asked of those who are coming along a little bit later. I think that it is undeniable that the administration's policy has put the brakes on inflation. What is important to notice is whether putting the brakes on inflation has led to this—what is the term we decided to use, what was the term?

Chairman WOLCOTT. Adjustment.

Senator FLANDERS. Adjustment.

Senator DOUGLAS. Is it a rolling readjustment.

Senator SPARKMAN. Deluxe recession.

Senator FLANDERS. You had a term yesterday.

Representative BOLLING. That applies to something else.

Senator FLANDERS. That was something else.

Congressman Bolling and I were on a program yesterday, and we both had a good time.

Representative BOLLING. The thing I said was that I thought the administration program could be described as a respectable version of the trickle-down theory.

Chairman WOLCOTT. If we have the time, I think we should ask you to expand on that.

Representative BOLLING. I will be delighted to, from time to time.

Chairman WOLCOTT. Would you revise your remarks.

Senator FLANDERS. These questions come up particularly with reference to Federal Reserve policy. Personally, I think it is a great achievement to have stopped the inflation, and it could not have been stopped without some, well, without some pain.

Senator DOUGLAS. May I say to my good friend, for whom I have the warmest affection as well as the highest respect, that inflation had been checked in March 1951, and from March 1951 to December 1952, we had a fall in wholesale prices, a slight rise in the cost of living, and if you will add the two together, exact stability; stability had been achieved by December 1952.

To say that the Federal Reserve in 1952, and the Treasury in January of 1953 started the program of checking inflation is at variance with historical fact.

Senator FLANDERS. Do you expect to be here Wednesday morning, February 3?

Senator DOUGLAS. Yes, indeed, but since the Senator from Vermont raised this issue——

Senator FLANDERS. Yes.

Senator DOUGLAS (continuing). I thought that an obligato upon his comments, perhaps, would be in order.

Senator FLANDERS. It is an atonal obligato.

Senator DOUGLAS. Good.

Senator FLANDERS. All right.

Chairman WOLCOTT. Is there anything further with respect to Mr. Hughes' assumptions on unemployment?

Mr. HUGHES. We do not—at least I do not—and I do not think any of us do—hold ourselves out as economic experts at the Budget Bureau; we are dealing more directly with figures and operations of the Government.

Chairman WOLCOTT. If there is not anything more on that, may we proceed to the next part of it. What price assumption was assumed in calculating this?

Mr. HUGHES. What—what?

Chairman WOLCOTT. Price assumptions.

Mr. HUGHES. Well, no—let me see, I do not think we worked particularly——

Chairman WOLCOTT. What I mean by that is, did you take into consideration the possibility of price changes.

Mr. HUGHES. Yes; as it stood and as it was, with some small change in the picture compared to last year, for example.

Senator FULBRIGHT. Is it fair to say, then, that this budget, generally speaking, is based on another year like 1953; is that about it?

Mr. HUGHES. No; it is not another year like 1953; but it is on the same general level of 1953, with some little margin.

Senator FULBRIGHT. Of course, I recognize the difference in the reduction of taxes, but I mean the general economic activity of the country, not the governmental action, but all of that is projected the same as it was in 1953, approximately?

Mr. HUGHES. Yes; that is what it says in several places.

Senator FLANDERS. And you deal with projects the coming year as the year in which costs of things will not have considerably risen?

Mr. HUGHES. That is right.

Senator DOUGLAS. And no considerable fall in prices.

Mr. HUGHES. Beyond what they have already had.

Senator DOUGLAS. Beyond what they had suffered by the end of the year.

Mr. HUGHES. That is right.

Chairman WOLCOTT. May we say beyond that which they will suffer due to the adjustment period ending some time this year and leveling off in anticipation of the end of the adjustment period.

Mr. HUGHES. That is right. There is some margin in there for that, but not for any radical change or any noticeable change.

Senator FLANDERS. What we wanted was to keep prices from falling and at the same time lower the cost of living.

Chairman WOLCOTT. Mr. Hughes, assuming that prices, and so forth, are the basic factors now, the last question in that category is this: Are all estimates in the budget consistent with respect to the basic economic assumptions?

Mr. HUGHES. Yes; they are.

Chairman WOLCOTT. Is there any further discussion in respect to that?

May we go to the second of these questions—and I shall read it: The President's economic report stated that on July 9, 1953, the Budget Bureau issued a budget policy for preparation of the 1955 budget, stating:

> Increased emphasis will be given to the development of plans for authorized high-priority projects to a stage where these projects could qualify for construction at a time when new construction starts would be consistent with a less restrictive budgetary policy?

Would you care to comment further on that?

Mr. HUGHES. Yes, sir.

The budget was carried out on that basis. There are two phases of it: One, the immediate thing that can be done now, and that had to be quite limited under our present budgetary and fiscal requirements, but we did set up a high priority group of new start projects which could be included. We continued at an economic rate going projects which were sound and which had been pretty well started in the form of public works of one type or another. Then we have started, as stated in the budget message, a number of projects which are sound economically in the way of advantages and which do not entail large expenditures, and which have a good local participation, and meet one or two other lesser requirements. Of those we found, by applying those standards a number altogether—27, was it not?

Mr. MCCANDLESS. That is right.

Mr. HUGHES. Including some restarts, and those are in the budget for proposed legislation—some of them are already authorized, and some of them have to be authorized, and are put in on that basis.

Chairman WOLCOTT. Is that in a directive, Mr. Hughes?

Mr. HUGHES. That is not in the directive, no; that is in the budget itself. The directive, of course——

Chairman WOLCOTT. Would it be helpful—I address myself to the committee, would it be helpful—to the committee if those projects were put in?

Mr. HUGHES. We can give you a list of those out of here.

Chairman WOLCOTT. Yes.

Senator DOUGLAS. How much do they total?

Mr. HUGHES. What was it? Have you got the figure there?

Mr. MCCANDLESS. It runs about $180 million.

Senator FULBRIGHT. Total cost?

Mr. HUGHES. Total cost, but the immediate cost for this year was not anything like that. I think it was about $25 million; those figures we will correct in the record, but those are just offhand figures.

Then that was exclusive, of course, of the St. Lawrence, which was a separate project and is being dealt with separately by Congress.

Mr. HUGHES. Then we have also and are cooperating actively with the Economic Council in their analysis and preparation of the projects which are good and which should be kept on the shelf, so to speak.

We are studying that and working out some kind of a basis for keeping the list up to date as much as we can. Those are the two sides of what the quotation from the budget referred to at that point. I will present a list, if you like, of the projects.

Chairman WOLCOTT. I think it would be helpful if you would give us that for the record.

Senator SPARKMAN. And a copy of the directive.

Chairman WOLCOTT. Have you a copy of the directive?

Mr. McCANDLESS. I do not have one with me; we can supply it.

Chairman WOLCOTT. Can you supply us with a copy of the directive? Without objection a copy of the directive will be inserted in the record at this point.

(The list and the directive previously referred to follows:)

New water resources projects and resumptions recommended in the 1955 budget

Projects recommended for starting or resumption	Total estimated cost	Recommended new authorizations, fiscal year 1955
CORPS OF ENGINEERS		
Local flood prevention projects to be started:		
Kawainui Swamp, Hawaii	$911,900	$500,000
Beardstown, Ill	3,898,500	400,000
Barbourville, Ky	2,190,000	350,000
Anacostia River, Md	8,063,800	1,000,000
Adams, Mass	5,406,000	560,000
Batavia, N. Y	793,000	300,000
Johnsonburg, Pa	598,000	300,000
Little Missouri River below Murfreesboro, Ark	530,000	492,000
Total 8 projects	22,391,200	3,902,000
Navigation projects to be started:		
Warrior lock and dam, Alabama	19,629,000	2,000,000
Redwood City Harbor, Calif	1,045,600	1,000,000
Housatonic River, Conn	1,115,000	500,000
Portland Harbor, Maine	1,475,000	675,000
Duluth-Superior Harbor, Minn and Wis	625,000	300,000
Fairfield, N. C	195,000	195,000
Missouri River, Omaha to Sioux City (Decatur Bridge Reach)	11,000,000	2,000,000
Green River locks and dams, Kentucky (to be started in 1954 with supplemental appropriation of $800,000)	14,399,000	5,400,000
Total 8 projects	49,483,600	12,070,000
Resumption on previously deferred projects:		
Coralville Reservoir, Iowa (flood control)	[1] 12,634,400	2,300,000
Dillon Reservoir, Ohio (flood control)	[2] 17,871,200	2,000,000
Calumet Harbor and River, Ill. and Ind	110,000	110,000
Port Aransas-Corpus Christi (Tule Lake), Tex	2,284,600	500,000
Total, 4 resumptions	32,900,200	4,910,000
St. Lawrence seaway (proposed legislation)	105,000,000	105,000,000
BUREAU OF RECLAMATION		
Irrigation and water supply projects to be started:		
Middle Rio Grande, N. Mex	28,848,759	721,000
Carlsbad, Alamogordo Dam Spillway enlargement, New Mexico	1,471,000	300,000
Yuma auxiliary, Arizona	476,000	100,000
Minidoka north side pumping project, unit A, Idaho (new unit of going project)	2,483,200	600,000
Santa Maria, Calif. (proposed legislation)	16,982,000	175,000
Washita, Okla. (proposed legislation)	29,197,000	325,000
Total 6 projects	79,457,959	2,221,000
Total, excluding St. Lawrence seaway	184,232,959	23,103,000
Total, 23 new projects and 4 resumptions	289,232,959	128,103,000

[1] Excludes $5,633,600 previously spent.
[2] Excludes $9,189,800 previously spent.

Directive on Planning for Public Works in 1955 Budget

On July 9, 1953, the Director of the Bureau of the Budget addressed a letter to all departments and agencies of the Government asking them to prepare their estimates for the 1955 budget so that the usual submission could be made to the Bureau of the Budget by September 15, 1953. In an attachment to that letter the Director set forth the following directive with respect to planning for public works:

"Increased emphasis will be given to the development of plans for authorized high-priority projects to a stage where these projects could qualify for construction at a time when new construction starts would be consistent with a less restrictive budgetary policy. This increased emphasis on planning is in furtherance of a general policy of initiating construction of new projects only after adequate plans have been completed. Therefore, the planning program should be composed of carefully selected projects the plans for which can be brought to early completion."

Mr. HUGHES. In addition to that there are certain planning funds in the budget which ought to make it easier for projects to be worked up and presented to the Congress. Certain funds are in there for planning various types of projects, primarily directed to teamwork operations where we have either private industry or public bodies or States or other governmental, local governmental, organizations interested in a particular project.

Chairman WOLCOTT. Mr. Hughes, if you are not in a position to do it now, I believe it would be helpful for the committee if you could extend your remarks and include a little brief on this matter of planning funds. Give us an example of what you mean. I do not expect you to give us all of them, but give us examples.

Mr. HUGHES. Yes.

(The information referred to follows:)

ADVANCE PLANNING OF PUBLIC WORKS

PLANNED RESERVE OF PROJECTS

By the end of the current fiscal year there will be an estimated $1.2 billion of authorized Federal civil public works planned to the stage where construction could be started. Advance planning will be in various stages of completion on another $3.5 billion. With the additional planning funds recommended in the budget, by June 30, 1955, there will be an estimated $1.7 billion of work planned to a stage where construction could be started and another $3.1 billion of work in various stages of planning.

There is no planned reserve of military public works. However, standard plans are available and are used for military construction of a repetitive type. These plans can be quickly adapted to particular projects.

DIRECT FEDERAL PUBLIC WORKS

The Federal Government is now equipped with a considerable volume of project drawings and specifications and would be able to expand its construction rapidly in the event of need, provided the necessary funds were made available.

Water resources projects

Most of the planned reserve of Federal projects consists of water resources projects. The major water-resource agencies include the Corps of Engineers, Bureau of Reclamation, and the Tennessee Valley Authority. On large projects, these agencies carry on project planning both in advance of construction and during the construction period. Planning which is done prior to the start of construction is financed by appropriations for general investigations and advance planning. After a large project is started, additional planning is carried along just ahead of construction and is financed with construction funds.

Appropriations recommended for general investigations and advance planning of water resources projects in the fiscal year 1955 amount to about $12.1 million as compared with $10.9 million of appropriations in the current fiscal year. Carryover funds for these purposes into 1954 amount to approximately $1.3 million. Carryover into 1955 has not been estimated, but there will undoubtedly be some carryover, judging from past experience. As indicated above, as construction progresses the planning is financed from construction funds. The budget as prepared for 1955 will provide planning funds from this source many times greater than the planning funds provided under "general investigations" and "advance planning."

By the end of 1955 the Corps of Engineers will have completed planning on about $1 billion of work and the Bureau of Reclamation on about $400 million. In addition the Corps of Engineers will have planning in process on another $1 billion of work, and the Bureau of Reclamation on another $800 million of work. Planning for much of this work is always at a sufficiently advanced stage that the work could be started whenever construction funds were available.

Other resource programs

Detailed planning in advance of construction is not required to any great extent on a number of other Federal resource development programs. These programs include forest roads and trails, roads and trails, and other facilities in national parks and on Indian lands, upstream flood-prevention work, and others. The same is true for programs of a nonstructural nature, such as soil conservation and forestry and range development.

Public buildings

In the case of the Public Buildings Service, planning funds programed in the 1955 budget amount to $863,000 as compared with $1,513,600 in the current fiscal year. The agency expects, however, that a normal amount of planning work for other agencies, performed on a reimbursable basis, will materialize in 1955, and will be sufficient to maintain the planning at the present level.

Military public works

About $150 million is presently available for advance and detailed planning of military public works. In addition, the $1.1 billion for military public works under proposed legislation in the 1955 budget includes additional funds for planning of military public works.

FEDERAL ASSISTANCE TO STATE AND LOCAL PUBLIC WORKS

To encourage State and local governments to prepare for possible future expan- of their public-works construction, the President in his budget message recommended legislation to authorize Federal advances to them for planning future construction. The budget includes under proposed legislation a supplemental appropriation for fiscal year 1954 of $10 million to institute this program. With this amount a substantial volume of needed public works could be planned.

The Federal Government also provides considerable financial assistance in the planning and construction of State and local public works through various grant and loan programs. Among the larger programs are the Federal grants for highways, airports, and hospitals; grants for schools in defense areas and districts burdened by Federal activities; and loans for low-rent public housing.

Representative BOLLING. Mr. Chairman, if I understood it correctly, when Dr. Burns was here he seemed to be of the opinion that there was considerable flexibility in the ability of the administration to expend money for public works.

Now, the point came up, because I had pointed out, that in 1954 there is the likelihood that there will be some inflexibility in the overall ability of the Government to act, because there is probably going to be a reasonably short session of Congress, and if an emergency were to develop or if the economic situation were to deteriorate, it would then be extremely difficult to modify the plans that had already been passed on by Congress. Dr. Burns appeared to be of the opinion there was in the public-works field enough flexibility, based apparently on a backlog of funds, so that the administration could move in a timely fashion even if the Congress were not in session and in a position to appropriate funds for new and additional projects or perhaps larger expenditures on going projects.

Mr. HUGHES. I do not know—I don't think probably he meant to give quite such a big margin as you speak of. There is undoubtedly, and always will be, a margin or there will be margins where you can speed up certain things which are in the works and which are authorized, and where you have got money available to use for them. But usually there is a restriction, not so much in that case only the budgetary, but the fact of the planning needed.

I mean, you just cannot suddenly build a dam or something of that nature just when you say so. It takes quite a lot of preparatory work to do it.

Representative BOLLING. I would like to pinpoint this, because if there are funds that are not already allocated for expenditure of any considerable order, I would like to know about them.

Mr. HUGHES. I do not think there is anything of any considerable order.

Representative BOLLING. Where is the flexibility?

Mr. HUGHES. Well, for example, I suppose if you have got funds authorized for 1954 you could possibly speed some of it up a month or two, or something of that nature; that is always possible.

Senator DOUGLAS. What about the Defense Department's budget?

Mr. HUGHES. Well, the defense budget would have a little more flexibility in it on that basis because of their large carryover of authorized funds.

Representative BOLLING. If there is no objection I would like to pinpoint this public works a little more. In what order of millions is their flexibility?

Mr. HUGHES. I could not say that offhand.

Representative BOLLING. Well, is it a billion or a hundred million or much less?

Mr. HUGHES. Oh, no; I would not think it would be anything like a billion dollars; I mean, it is all there. If you get the congressional authorization and you can have sufficient time to plan, it is all there, but whether you can do it in 1 month or 6 weeks or something of that sort is an entirely different problem.

Senator FLANDERS. But do you not have at least considerable flexibility in the rate of expenditures for funds already appropriated?

Mr. HUGHES. That is what I was saying you do have.

Senator FLANDERS. Certainly you do have on defense.

Mr. HUGHES. You have a margin there. You could speed or hold it back.

Senator FLANDERS. We have been slowing up on many things.

Mr. HUGHES. Yes, that is right.

Senator FLANDERS. That process can be reversed in an emergency——

Mr. HUGHES. That is right.

Senator FLANDERS (continuing). To the tune, I would think, of considerably more than one hundred million.

Mr. HUGHES. I would think so.

Senator FLANDERS. I would think you could run that process up into the order of at least $1 billion.

Mr. HUGHES. Maybe so.

Representative BOLLING. Is that in defense and public works?

Mr. HUGHES. Yes, or rather on defense expenditures.

Representative BOLLING. I tried to keep this segregated. I would like to talk about public works.

Senator FLANDERS. The conditions are somewhat the same, but on a lesser scale on public works.

Senator DOUGLAS. How much is the total appropriation for public works not yet spent?

Mr. HUGHES. Have you got that figure?

Mr. MCCANDLESS. It is pretty hard to say what it is, Senator. We were estimating expenditures on direct Federal civil construction for 1955 of about $1,100 million. To complete those projects, the same projects, would require an additional $5,200 million.

Senator DOUGLAS. That has been authorized. How much has been appropriated?

Mr. McCANDLESS. Well, the way funds are appropriated, this is for civil only; this does not include the military.

Senator DOUGLAS. I understand.

Mr. McCANDLESS. The appropriation carryover is not a great deal.

Mr. HUGHES. The appropriations are made annually.

Mr. McCANDLESS. The carryover will not be a great deal or a large unexpended balance or lag there because we try to appropriate for the work performed, the progress of the work.

Senator DOUGLAS. You see, what Congressman Bolling says——

Mr. McCANDLESS. There will be some.

Senator DOUGLAS (continuing). Suppose we go home and then an emergency develops; will there be unexpended appropriations——

Senator FULBRIGHT. That is right.

Senator DOUGLAS (continuing). The President can draw upon to speed up? That is the point, and what you are saying is probably there will not be insofar as civil works are concerned.

Mr. McCANDLESS. At any rate, there would be the difference between what we have estimated to be spent for the year in toto and what has been expended to date; that could be speeded up.

Senator DOUGLAS. Probably within a fewer number of months?

Mr. McCANDLESS. Yes, sir.

Mr. HUGHES. For example, for fiscal 1955 you could speed up the operations in the second half of the calendar year 1954, and then take it up when the Congress came in again in the early spring, in the beginning of 1955.

Representative BOLLING. That is the kind of thing I am anxious to get something fairly specific on. I realize you cannot, in a complicated matter like this, be precise.

Mr. HUGHES. It is an engineering problem as well as a budgetary problem.

Representative BOLLING. Of course, you cannot, we cannot, be precise, but I think we could use for the record some estimate of the order of flexibility stated in dollars that there might be in the public-works program.

(The information referred to follows:)

ADMINISTRATIVE FLEXIBILITY IN THE BUDGET

A. With respect to public works, many projects take more than 1 year to complete, and in some instances work will extend over a period of several years. In the case of military public works, the Congress has provided funds for some work which has not yet been started or on which progress has been held down administratively for fiscal or other reasons. Within available funds, and in the light of national security objectives, administrative action could be taken to speed construction of military public works underway or to initiate new projects.

In the case of civil public works projects, there is less administrative flexibility because even though appropriations are made on a lump-sum basis for the larger programs, these programs are set forth in the budget by specific projects and are so considered and acted on by the appropriation committees. It is established practice that funds will be allocated only for work on which Congress has passed. Additional appropriations would generally be required to speed work on going projects if it is necessary to let additional contracts beyond those on which the appropriation is based. Additional appropriations would also be required if new programs or projects not recommended in the budget nor appropriated for by the Congress are to be initiated.

However, some flexibility in expenditures is possible particularly on the large multiplepurpose water resource development projects; and, within the limits of available contract authority, Federal approval can be given to a speeding up by the States of the federally aided highway program. It would be possible on a number of civil public works programs, through administrative action, to spend a larger proportion of the available appropriations early in the fiscal year. This action would be feasible where engineering plans and other arrangements have been completed and the work could proceed ahead of the schedule contemplated for the year. In such cases, it would be necessary later in the fiscal year to submit a request for supplemental appropriations if the obligation and expenditures of the constructing agencies were to continue at the accelerated rate throughout the balance of the fiscal year.

B. With respect to the budget as a whole, there is a much wider degree of flexibility than there is in administering civil public works projects. The following statement summarizes a study of this subject that was prepared last summer by the staff of the Bureau of the Budget at the request of the Council of Economic Advisers. The study was done before the 1955 budget was prepared, but the observations are as useful today as they were several months ago.

"The President, with the assistance of the Director of the Bureau of the Budget and the other administrative officers of the Government, can utilize flexibility in the administration of the Federal Budget to contribute to the maintenance of economic stability and growth. Flexibility in the administration of the budget does not refer to the so-called built-in stabilizers, such as the automatic change in tax liabilities and payments which occur with a change in business and personal incomes or the increase in unemployment benefits which accompanies an increase in the number of unemployed. Nor does it refer to new expenditure programs which the Government might undertake, such as new public-works programs requiring special congressional authorizations and appropriations. Administrative flexibility refers to those actions which can be taken by Federal Government officials either to speed up or slow down Federal expenditures within existing laws and without new appropriations from the Congress.

"Several areas of administrative action which can, within limits, be utilized to maintain economic stability are discussed below. In this discussion, it has been assumed that no change would be made in the military programs of the Government for the purpose of stabilizing or supporting economic activity in the Nation. Hence, additional flexibility could be provided by changing the presently planned rate of spending appropriated funds available to the Department of Defense, if such action would not be inconsistent with the overall objectives of the national security program.

"First, the management of the operations of public enterprises—wholly owned Government corporations. These public enterprises play significant roles in individual markets and their transactions can and do affect the general economy. Usually, their managements have been granted sufficient financial authorizations by the Congress to operate for a period of years or to meet emergency situations. Taken together, expenditures of governmental corporations could increase by as much as $2 billion as a result of administrative actions, or could be reduced by this amount, if necessary. The effect of these actions on the economy would be greater than the amount of direct governmental outlays involved, especially for housing construction, because the actions of the Government could stimulate, or inhibit, a much greater amount of private expenditure.

"Secondly, stabilizing actions can be taken by Federal officials in administering programs in which there is leeway in the time allowed to accomplish an authorized objective. With the onset of a business decline, work on Government programs—not only military and civil public works but all programs—could be speeded up to a point where Federal expenditures in the first year could be increased by at least $1 billion.

"Thirdly, with a decline in employment, production, and national income that would be accompanied by a decline in prices, appropriations already enacted by the Congress in fixed dollar amounts could be used to buy more goods. Under normal procedures, the amounts of appropriations enacted which are found to be excessive in the light of price declines are withheld from expenditure and placed in "budgetary reserves." However, the President can release such excess funds, for use in speeding up the accomplishment of the program objectives for which the appropriations were originally made. This need not result in the wasteful expenditure of moneys nor be an economic-emergency or a "pump-priming" operation, because the moneys involved would be spent for useful and needed projects already authorized by the Congress. There would be merely a change in the timing of the completion of these projects.

"In summary, it appears that in the event of a decline in business activity, administrative actions could increase Government expenditures by at least $3 billion a year in current dollar terms, and by more than that amount in real terms. This amount includes many different items as described above; only a small part is in civil public works. In some cases, these administrative actions would also provide incentives and stimulation for increases in private investment and consumption."

C. The unexpended balances appropriations for national security programs, including the Department of Defense, are set forth below. Most of these balances are already obligated. Changes might be made, however, in production and delivery schedules if such changes were consistent with national security requirements and helpful in maintaining economic stability. Since national security questions are involved, the Bureau of the Budget has no way of estimating how much change in the rate of expenditure of these funds might be feasible with changing economic conditions.

Cumulative unspent balances of appropriations, major national security programs [1]

At end of fiscal year:	*In millions*
1950 [2]	$8,049
1951 [2]	44,577
1952	64,255
1953	74,241
1954 (estimated)	62,826
1955 (estimated)	50,770

[1] Represents military functions of the Department of Defense, mutual military program, atomic energy, and stockpiling of strategic and critical materials.
[2] Estimated. Detailed accounting data not available.

Senator DOUGLAS. Are you saying that for 1954, 1955, you contemplate expenditures of $1,100 million for civil public works?

Mr. McCANDLESS. That is right; that is direct Federal construction.

Senator DOUGLAS. Does that include contracts, work done on contracts?

Mr. McCANDLESS. Yes; if it is done directly, but it does not include grants, such as for highways.

Senator DOUGLAS. It does not include roads?

Mr. McCANDLESS. No; it does not include roads.

Mr. HUGHES. Which is another place you have flexibility.

Representative BOLLING. If we could get any indication of the flexibility that is available there, then I would like to have some idea of what flexibility might exist in the defense program.

Mr. HUGHES. That, of course, is an entirely different proposition. We can work up something for you on this civil public works, that is, the ordinary public works.

On the military, you have a very large order of appropriations authorized and carried over from the previous year. Now, it is not primarily, as the Secretary has pointed out, and as he will point out to you, it is not merely a question of having authorized money; it is a question of being able to spend it.

Senator DOUGLAS. It is not the authorization that is sufficient, there must also be an appropriation.

Mr. HUGHES. Well, in the case of defense, it is an appropriation; you have got an appropriation there, which is carried forward.

Representative BOLLING. There are very large unexpended balances, and if there is a more severe contraction or adjustment——

Senator DOUGLAS. Rolling readjustment.

Representative BOLLING (continuing). In the economy than anticipated, presumably, in view of some of the things that have happened in the last few months in the way of reducing contracts here and there, that process could be reversed. Would that be correct?

Mr. HUGHES. Yes; that is right.

Senator FLANDERS. I was out of the room when you were talking about the chart that is on the easel back of you. It seems to me to be somewhat pertinent to this question in a general way, although not too specifically to be able to see a curve year by year of unspent appropriations. I have always wanted to see that, and I am not too sure that I have ever had it put before me.

Mr. HUGHES. We have a table here showing that.

Senator FLANDERS. Then, glory be, give me the page.

Mr. HUGHES. It is on page M–7 of the budget document; at the bottom of the page and there is a little further exposition of it.

Senator FLANDERS. M–7?

Mr. HUGHES. Also on page M–32, unexpended balances.

Senator FLANDERS. It would be nice to have that page 32, unexpended balances, and it would be nice to have it in the same form that your chart has, and it would be good to have it in the two areas—the areas which are not those of the necessary expenses; that is, it would be good to have it in the uncontrollable, in the major areas of the controllable expenses, to have it in defense, and to have it in public works, and, perhaps, 1 or 2 other classifications.

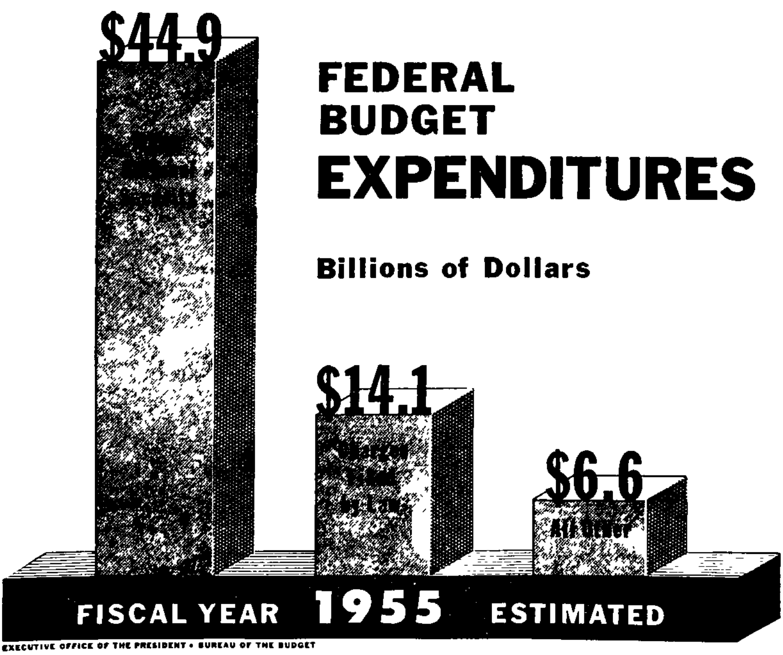
Mr. HUGHES. Yes; we have that. There is probably a table here.

Senator FLANDERS. I wish we might have it in chart form as well as in table form.

Mr. HUGHES. All right.

Senator FLANDERS. These tables are short, fortunately, but in a long table you forget the first figure before you arrive at the last one, and with the chart you grasp the whole thing at one eyeshot.

(The chart referred to follows:)



Senator FULBRIGHT. Will the Senator yield for a question? Is there any breakdown in this budget between civil and military, the same figures?

Mr. HUGHES. You mean unexpended balances?

Senator FULBRIGHT. Yes.

Mr. HUGHES. Yes; somewhere in that.

Mr. McCANDLESS. There is a table on A–14 and A–15 that breaks the balances down.

Senator FLANDERS. The table starts out "Balances of prior authorizations for expenditure" and a subhead "Appropriations enacted or recommended." What is meant by "appropriations recommended"?

Mr. McCANDLESS. It includes the fiscal year 1955, for which authorizations are recommended in this document.

Senator FLANDERS. So this relates to expenses which have been appropriated and also to the budget under current consideration?

Mr. HUGHES. That is right.

Mr. McCANDLESS. Yes, sir.

Senator SPARKMAN. 1953 actual, 1954 actual, 1955 and 1956 estimated.

Mr. McCANDLESS. The items that appear on the message table M–7 come from the line appearing at about two-thirds or three-quarters of the way down on A–14, "Grand total, balances of appropriations."

Senator FLANDERS. It seems to me that just offhand you have here the information I was asking here.

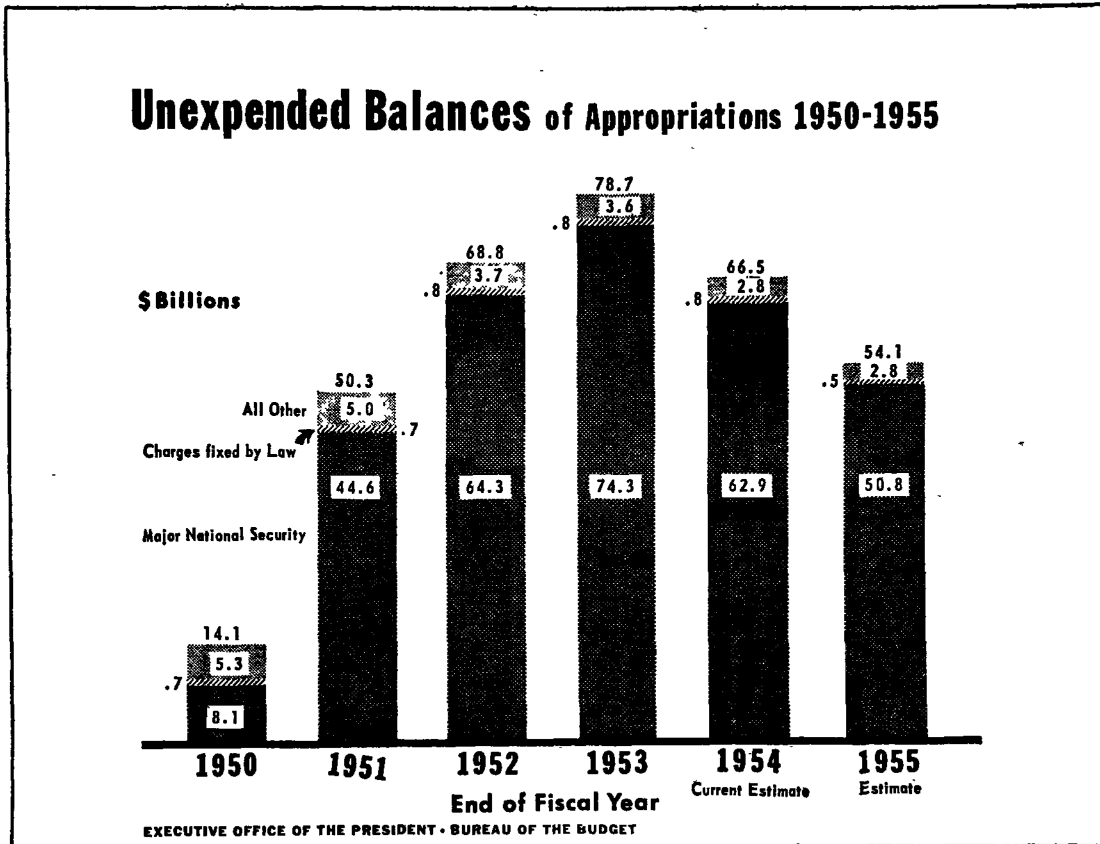
Mr. HUGHES. You see defense is $47 billion of that.

Senator FLANDERS. But when I see that chart or corresponding charts in detail, I would also like to see this other at the same time too, for me, personally to get a clearer picture of what is going on, what has happened.

Mr. McCANDLESS. That is, a chart, perhaps, showing the balances over a period of years broken down between the principal items of national security.

(The chart referred to follows:)

43498—54——4


Unexpended Balances of Appropriations 1950-1955
$ Billions
All Other
Charges fixed by Law
Major National Security
14.1
5.3
.7
8.1
50.3
5.0
.7
44.6
68.8
3.7
.8
64.3
78.7
3.6
.8
74.3
66.5
2.8
.8
62.9
54.1
2.8
.5
50.8
1950
1951
1952
1953
1954
Current Estimate
1955
Estimate
End of Fiscal Year
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Senator FLANDERS. But I should also like to see the total on the total chart also.

Mr. HUGHES. Yes.

Chairman WOLCOTT. The one on that chart would have to be in totals.

Senator FLANDERS. Yes; it would have to be totals on that chart: I would like to see it on the broken down charts as well. We have heard so much, both in public hearings and in private conversation about the C. O. D. packages coming to you from previous Congresses, that I think it would be a good idea to have that C. O. D. stuff spelled out or visible.

Senator SPARKMAN. In that connection I would like to ask this: Is it advantageous to the budget or to the Government to have these appropriations carried forward that way from year to year rather than to have the old method of contract authorization?

Mr. HUGHES. Well, of course, that is a large question. As far as the budget itself is concerned, naturally, we have a better control from our viewpoint if you have the separate authorization each year. It is a question of whether it is practicable or not in view of the requirements that people who have contracts to do work which runs ahead 3 or 4 years, whether that can be adequately handled or not, that is being discussed, of course, many times. It is not a closed question, by any manner of means.

Senator SPARKMAN. Well, up until a few years ago we did operate practically altogether on the authorized contract form, and then several years ago we changed over.

Mr. HUGHES. That is right.

Senator SPARKMAN. Was that action taken at the recommendation of the executive departments or was that simply a rule decided upon by the Appropriations Committee and by Congress?

Mr. HUGHES. I was not here at the time. I doubt it was primarily the executive department.

Mr. MCCANDLESS. I think it was just kind of an evolution, Senator Sparkman. Both sides, the Appropriations Committee moved in that direction, and as they moved, we also moved; as they moved more toward direct appropriations rather than contract authorizations, we likewise moved that way to get the budget into consistent pattern.

Senator FULBRIGHT. I assumed that in the Defense Department, for instance, handling big orders, it does give them an easier method of handling the accounts by having the appropriations made rather than contract authorization.

Mr. HUGHES. That is correct.

Senator FULBRIGHT. Because then they can speed up delivery or slow down delivery more easily.

Mr. HUGHES. Not only that, but it is pretty hard—things change. You are making a schedule, and you have only annual appropriations, which are for 18 months ahead, say. Then there may be a certain need for increasing the tanks or increasing something else, and then they are in a bit of a jam because while they have got it authorized all right, and they have got it contracted for in the future, there is no way of bringing that in from 1956 to 1955, for example.

Senator FLANDERS. That is pertinent to the point we have just been discussing.

Mr. HUGHES. That is correct.

Senator FLANDERS. As to what extent it would be possible to speed up expenditures.

Mr. HUGHES. That is the serious problem, and I think that was the basis of the theory of the changeover really, but that is not a closed question; that is still being discussed actively right now.

Senator SPARKMAN. I liked the Senator's ideas of bringing this question to the fore, and making reference to these c. o. d. packages that we have talked about. It seems to me that we ought to have a clearer understanding that these c. o. d. packages were made necessary by reason of the long contracting that was required and, frankly, I think most of the time we have been pretty glad to have those packages delivered on time.

Senator FLANDERS. Of course, the reference to them as c. o. d. packages is, frankly, an exhibition of semantic sagacity to which——

Senator SPARKMAN. I thought we were going to stick to English.

Senator FLANDERS. Both parties are prone, and the Republicans would have to be semantically sagacious in self-defense, if for no other reason.

Senator SPARKMAN. I am completely disarmed, Mr. Chairman.

Mr. HUGHES. There are apparently both kinds, some necessary carry forward balances, some which appear not so necessary.

Senator DOUGLAS. However, this will be valuable if you wish to speed up '54–'55 by moving forward some of '55–'56 in this period; it may be extremely valuable to you to have flexibility in '54–'55.

Mr. HUGHES. That is right. For the first half of the year, in the fiscal year, you have a considerable amount of flexibility.

Senator DOUGLAS. Within the year.

Mr. HUGHES. Within the year.

Senator DOUGLAS. But then within the year as a whole——

Mr. HUGHES. That is correct.

Senator DOUGLAS (continuing). Do you think you have the power now to move '55–'56 into '54–'55?

Mr. HUGHES. You have to be legally authorized—where things are legally authorized by the Congress.

Senator DOUGLAS. Well, that is true; that is, it has been appropriated in the case of defense.

Mr. HUGHES. Yes; it is a matter of discretion and judgment.

Senator DOUGLAS. I hope we may get a note of thanks from the Bureau of the Budget for the flexibility we have provided.

Mr. HUGHES. We are not asking for that.

Senator DOUGLAS. But we would appreciate it very much; not a note of thanks to the Bureau of the Budget but a note of thanks from the Bureau of the Budget.

Mr. HUGHES. But there are both kinds in here, Senator. There are things which are—I mean very often any big program of this kind, you have to analyze it and see what is actually a necessity and what is actually just something which goes along with the operation; it is a matter of details and analysis.

Senator FLANDERS. May I just stop at this point to ask a question with regard to the tables on A–14? The first group is appropriations enacted or recommended; the recommended comes in the future estimates.

Now, appropriations for later transmission; what does that mean?

Mr. HUGHES. Well, for the main item in there, it is the mutual military program in the Department of Defense, and that is something which is not in detail in the budget. It is customarily presented a month or two afterward and, therefore, it is not detailed so far in this document; all we have is an estimate of the figure that it is going to be.

Senator DOUGLAS. Do you have it included?

Mr. HUGHES. We have it included in the table.

Senator DOUGLAS. It is back in the main text of the budget?

Mr. HUGHES. Yes; it is included in the budget, but the detail of it has not been presented in the Congress; it is still being worked out in some detail.

Senator FLANDERS. I hope we are not going to have a continuation of appropriations requests dropped on us unexpectedly like an apple from an apple tree hitting your head when you are hoping to sleep quietly beneath the shade.

Mr. HUGHES. You do not hope for that any more than we do.

Senator SPARKMAN. It is a pretty vain hope, is it not?

Mr. HUGHES. There is always the case of trying to keep it small.

Senator FLANDERS. We have the next category which is "Authorizations to expend from debt receipts"; what does that mean?

Mr. HUGHES. That is a little different. Do you want to explain that? I know what it is, but I think you can explain it.

Mr. MCCANDLESS. It is basically, Senator Flanders, practically the same thing as an appropriation; it is made in a different way. You see, the language in either authorizing bills or in appropriation acts sometimes provides that in lieu of an appropriation an agency is authorized to expend from debt receipts.

Senator FLANDERS. What does it mean?

Mr. MCCANDLESS. It is normally used for the capitalization of corporation revolving funds, and that sort of thing; that is normally what it would be.

Mr. HUGHES. The commodity credit.

Mr. MCCANDLESS. The Commodity Credit Corporation.

Senator DOUGLAS. Is that item of $1,192,000, for CCC, the estimated deficit or estimated purchases?

Senator FLANDERS. "Debt receipts," does that refer to the revolving nature of these funds, some of them?

Mr. MCCANDLESS. It is a matter of handling the transaction within the Treasury; that is, the money comes from the public debt account, from borrowing; that is what it amounts to.

Senator FULBRIGHT. How is it distinguished from appropriations? I do not understand it.

Mr. MCCANDLESS. In terms of the way we write these things up, I think about the only distinguishing factor, Senator Fulbright, is that appropriations, or most of them, are more immediately expendable; secondly, they are not subject to recoupment by receipts or restoration by receipts, whereas most of these authorizations for public-debt transactions are, as I say, revolving funds where you have the matter of receipts involved. I think that is the primary distinguishing matter.

Mr. HUGHES. Doesn't that cover the international bank?

Chairman WOLCOTT. May I say that these are appropriations issued and authorized under the second Liberty loan, so there is not a definite amount of money to be paid, but these agencies may draw upon the Treasury under this authorization, and the Treasury is authorized to use the authority of the second Liberty Loan Act. I think we all should be a little concerned about that.

Mr. HUGHES. It is certainly nothing to be foolish about.

Chairman WOLCOTT. We are within a few hundred millions of the debt limit, and if some of these agencies should call upon the Treasury for any sizable amount, not even a very sizable amount, it would very well put us over the debt limit.

Senator FULBRIGHT. Does this type of authorization go through the Appropriations Committee in the regular way or does it not?

Chairman WOLCOTT. No; it does not. It bypasses the Appropriations Committee, Senator. Let us take an example of the Commodity Credit Corporation. There is a bill in now to raise their authorization to about $8 billion from 6 or 7.5 billion. Now, they can call upon the Treasury for any amount under that authorization, and the Treasury is authorized through the second Liberty Loan Act to raise the money. When it is called upon, the Treasury, under the second Liberty Loan Act, adds to the national debt, because it is already authorized to raise the money.

Senator SPARKMAN. FNMA operates like that.

Mr. HUGHES. That is not the loss of the money. The restoration of the money lost in these operations goes through the Appropriations Committee.

Chairman WOLCOTT. That is right.

Mr. HUGHES. For example, when you actually replace that money lost by the Commodity Credit Corporation to support the crops, that goes through the Appropriations Committees.

Senator FLANDERS. Did you appropriate in retrospect or in anticipation.

Chairman WOLCOTT. In anticipation.

Mr. HUGHES. A little of both. You have $750 million in a present bill coming through the Appropriations Committees, which is to make good a loss which has already been incurred, and then you have $1,750 million in another present bill which is new money to meet the future demands, you see, so there is some of both in there.

Chairman WOLCOTT. This question has arisen in respect to the international bank. We have a subscription of the international bank. The international bank can call upon the Treasury for its subscription. The Treasury will have to raise the money to do it.

Mr. HUGHES. That is right.

Senator FULBRIGHT. They are already authorized to do it?

Chairman WOLCOTT. Yes; they are authorized to raise the money under the Liberty Loan Act. It has been suggested that it go through the procedure down here of appropriation for the purpose, but the money can be raised previous to the appropriation.

Mr. HUGHES. In that case it could.

Chairman WOLCOTT. There is an obligation of the Treasury under our instructions to raise that money.

Mr. HUGHES. Yes.

Senator FULBRIGHT. It really does not need an appropriation.

Senator SPARKMAN. Take the case of FNMA, it does not require any appropriation.

Mr. HUGHES. It doesn't require—it doesn't require an appropriation.

Chairman WOLCOTT. Where Fannie Mae sells its debentures and there is an obligation on the part of the Treasury to buy these debentures, that is not appropriated for. That is what you wanted to know?

Senator FLANDERS. That is right. We simply authorize that, but when it goes to the Treasury for the money, the Treasury uses these funds that we are talking about?

Mr. HUGHES. That is right.

Senator FULBRIGHT. And now, that first item under that "Funds appropriated to the President," what would that be?

Mr. MCCANDLESS. I would have to look over it and see.

Senator FULBRIGHT. In general.

Mr. MCCANDLESS. Most of that is for expansion of defense production, Senator Fulbright; that is it. These are just authorizations for public debt receipts which are basically just the same as appropriations in that they do allow expenditures from the Treasury, as a general proposition.

Senator DOUGLAS. What is the item on independent offices; what does that come from, that $824 million?

Senator FLANDERS. If I can proceed with my request for information and understanding on this table 8 at page A-14, under the last category on that page, the category reads:

Authorizations to expend from debt receipts.

Take, for instance, the item for the Department of Agriculture for which we have also estimates for 1955 and 1956. Now, over on the next page we have a new category:

Authorizations to expend from debt receipts for later transmission.

and the Department of Agriculture again appears under 1955 and 1956 estimates. What is the difference between its appearance on that new category and in its appearance at the category at the bottom of page A-14?

Mr. MCCANDLESS. Those items at the top of A-15 have to do with legislation that has not been yet enacted or has not been formally presented, which is to be presented to the Congress.

In other words, Senator Flanders, the $1,750,000,000 of CCC authorization would appear in A-15 under the caption "for later transmission."

Mr. HUGHES. And the $774,954,762 estimate in 1955.

Senator FLANDERS. Let me see. Here we have the Department of Agriculture. Where do you take those figures from, you just stated?

Mr. MCCANDLESS. I beg your pardon, sir?

Senator FLANDERS. From where did you take those figures that you just gave from the Department of Agriculture?

Mr. MCCANDLESS. Well, they are—the ones we were talking about, Mr. Hughes just mentioned, were at the top of A-15.

Senator FLANDERS. Top of A-15, Department of Agriculture 1955 estimate is unobligated—I conclude that I don't understand these designations at all.

Mr. HUGHES. The $774 million has already gone up to the Congress.

Senator FLANDERS. Oh, yes.

Mr. HUGHES. That is the one you acted on the other day.

Senator FLANDERS. Yes, I clearly understand that.

Mr. HUGHES. Now, in the 1956 column, it includes $1,750 million, which has since been changed to make that available before the start of 1955, although at the time this budget was written it was not proposed to do it except in the year 1955.

Senator FLANDERS. I still am not too clear on the forward estimates at the foot of page A–14 and the forward estimates for Agriculture at the top of A–15. In other words, I don't understand the category, the meaning of it, the two categories.

Mr. HUGHES. The authorization to expend from debt receipts at the bottom of page A–14 are those now in existence or for which detailed estimates appear in the budget.

Senator FLANDERS. We have some in existence for 1956?

Mr. HUGHES. That is right; we have some in existence which will carry balances from 1955 into 1956.

Senator FLANDERS. We have obligations in existence for 1956 under Agriculture?

Mr. HUGHES. In the authorizations to expend from debt receipts those are.

Senator FLANDERS. We have authorizations to expend 1956 for Agriculture. What is the nature of those? Does someone know why we should be——

Mr. MCCANDLESS. If I may suggest this, those 1956 figures are the carryover balances; we are speaking of balances for the fiscal year 1955; that is what you end the fiscal year 1955 with.

Mr. HUGHES. In other words, you go into 1956 with these figures.

Mr. MCCANDLESS. You go into 1956 with them.

Senator FLANDERS. That is not the nature of the 1956 estimates on the next page?

Mr. MCCANDLESS. Yes, sir; it is.

Senator FLANDERS. For Agriculture?

Mr. MCCANDLESS. All the way through they are the ending balances for the fiscal 1955 and the entering balances for fiscal year 1956, and the column captioned "1956 estimate" does not reflect any operations for the fiscal year 1956 at all.

Senator FLANDERS. Well, the obligated for 1956 for Agriculture at the top of A–15 is $663 million plus.

Mr. MCCANDLESS. Yes, sir.

Senator FLANDERS. At the bottom of the page under the same column heading "1956 estimate, unobligated" it is $5,511,703; obligated is $1,291,000; the column headings are the same.

Mr. MCCANDLESS. Yes, sir.

Senator FLANDERS. The category descriptions are the same except for the words "For later transmission."

Mr. MCCANDLESS. That is correct, sir.

Senator FLANDERS. Well, I would like to have a brief prepared, put in the simplest possible language, so that we can understand just what these categories mean, because they are not obvious to me, at least, on the face of them.

Mr. HUGHES. Yes. I think there is one factor that you might take into consideration, sir, on that, and that is that these do not represent new figures; they are balances at the end of the year or at the beginning of the year, and then you carry forward, and you get the new balance left at the beginning of the next year. In other words, it is not a matter of adding them up and getting a cumulative figure; it is the position at the date rather than a cumulative operation.

Senator FLANDERS. Now, balances of contract authorizations, how does that differ from all the rest of this on the other part of the pages? That is balances carried over each year?

Mr. McCANDLESS. Yes, sir.

Mr. HUGHES. These are balances carried over each year.

Mr. McCANDLESS. It is a different kind of authority that Congress has granted.

Mr. HUGHES. In these other tables, there are figures which accumulate; in other words, you spend so much this year, so much next year, and then the next year; whereas these represent balances as they are estimated to stand at the start of that period.

Senator FLANDERS. Agriculture does not appear under that category.

Mr. HUGHES. Which one, sir?

Senator SPARKMAN. A few pages prior they explain these things, on page A-3.

Chairman WOLCOTT. I wonder if we can reach it this way. If Mr. Hughes decides that the explanation which you desire has not been covered, they will give us a supplementary statement.

Mr. HUGHES. We will give you a brief statement on it.

Chairman WOLCOTT. And it will be helpful if you would give us a few examples.

Mr. HUGHES. Yes, sir.

Senator SPARKMAN. May each one of us have a copy of that? If it is simple enough for a layman to know it, I would like to see it.

Chairman WOLCOTT. I assume it is being done for the benefit of the committee.

Senator FLANDERS. I don't want any unfair advantage.

Senator FULBRIGHT. I guarantee you are not the only one who does not understand it.

Mr. HUGHES. Maybe we will all understand it better.

Chairman WOLCOTT. Is there anything further, Mr. Hughes?

Mr. HUGHES. I always learn by having to put it down on paper, that is my experience.

(The statement referred to follows:)

EXPLANATION OF TABLE 8 IN THE 1955 BUDGET PERTAINING TO BALANCES OF APPROPRIATIONS AND AUTHORIZATIONS

The purpose of table 8 (pp. A14 and A15 of the 1955 budget) is to show the total balances available for obligation and expenditure at the start and end of each of the 3 years covered by the budget. It is built up from details appearing in the various chapters of part II of the budget.

To the various agencies involved, the balances (except balances of contract authorizations) are virtually like cash—that is, the agencies may cause checks to be written against them whenever it is necessary. In fact, the balances are commonly referred to as "cash with Treasury," particularly in the case of revolving funds.

However, it should be clearly understood that these balances are not cash in the sense that the Government has these amounts either in bank deposits or in vaults somewhere. In reality the balances shown on table 8 merely represent the amount which the agencies could use if they were to obligate and expend the authorizations which have already been granted by Congress. Since experience indicates that these balances will not all be drawn down at once, the Treasury carries a much smaller balance of cash in banks and in vaults. Taxes, other revenues, or borrowing must provide the necessary cash to finance the spending of these balances in the fiscal periods when they are expended.

In addition to the explanation given below, definitions and some explanation of the terms used are found in the introduction to part I of the budget (pp. A3 and A4).

DATES COVERED BY THE TABLE

The four pairs of columns cover the following dates:
1953 actual—carryover of balances from the end of the fiscal year 1952 to the beginning of the fiscal year 1953.
1954 actual—carryover of balances from the end of the fiscal year 1953 to the beginning of the fiscal year 1954.
1955 estimate—carryover of balances from the end of the fiscal year 1954 to the beginning of the fiscal year 1955.
1956 estimate—carryover of balances from the end of the fiscal year 1955 to the beginning of the fiscal year 1956.

OBLIGATED AND UNOBLIGATED BALANCES

For each of these dates, the balances are divided between obligated and unobligated. The first of these comprises the obligations which have been incurred but not yet paid as of July 1. In the case of salaries and wages, the obligated balance normally reflects amounts earned by employees during the last few weeks of the year, which are payable within the first days of the new fiscal year. In the case of travel, transportation, and like items, the obligations will normally represent the business of 1 month or a little longer (that is, services received in June and perhaps May, mostly to be paid in July). In the case of construction, major procurement, certain research contracts, and similar items, the obligated balances may represent the unpaid portion of contracts placed over a period of some time, even as much as several years.

The unobligated balance columns reflect the portion of the balances which are available for the incurring of additional obligations. Together, the obligated and unobligated balances equal the total amounts which have been authorized for use and are carried over into the new year unexpended.

BALANCES OF APPROPRIATIONS

The most common form of budget authorization is the appropriation. Congress enacts appropriations to cover most of the regular going programs of the Government.

Many appropriations are available for obligation for only 1 year; and in all such cases, table 8 reflects only the obligated balance at the end of the year, the unobligated balance being eliminated because it does not go forward into the next year. However, some appropriations have been made available by Congress for longer periods of time, and in such cases both the obligated and unobligated balances are carried forward from year to year so long as the balances remain legally available.

The appropriation balances shown on table 8, like the material shown elsewhere in the budget, relate to three classes of appropriations, as follows:

Appropriations enacted.—This term has reference to appropriations already acted upon by Congress for the fiscal years up to and including 1954.

Appropriations recommended.—This term has reference to appropriations recommended by the President for the fiscal year 1955, for which detailed estimates appear in the budget. Generally speaking, these are the appropriations which are authorized by existing legislation, and for which requirements are now known.

Appropriations for later transmission.—This term includes (*a*) a forecast of certain supplemental appropriations which it appears will be required to finish the year 1954; (*b*) a forecast of certain additional appropriations probably required for the fiscal year 1955, for which detailed estimates will be sent to Congress during the next few months, usually after enactment of authorizing legislation; and (*c*) an item called "reserve for contingencies," which is an allowance, based on experience, to cover probable other supplemental items that may be submitted later for 1954 and 1955, although the needs could not be specifically identified at the time the 1955 budget was submitted.

The balances from the first two classes of appropriations just named appear in the first section of table 8 under the heading "Appropriations enacted or recommended." The balances of 1954 and 1955 supplementals carried into the following year appear in the second section of table 8 under the heading "Appropriations for later transmission." The reserve for contingencies appears at the end of the table on page A15.

For example, in the first section of the table it is estimated that the Department of Agriculture will have regular appropriation balances of $150.9 million obligated and $245.3 million unobligated at the beginning of the next fiscal year and balances of $147.6 million and $179.1 million at the end of that year. The budget estimates (pp. 326 and 420) that a $3 million supplemental appropriation will be needed for 1954 for the Forest Service, all of which will be obligated in 1954, and of which $2.5 million will be spent within that year and $500,000 carried over and spent in 1955. Accordingly, a $500,000 obligated balance is shown for Agriculture at the beginning of the fiscal year 1955 in the second section of table 8.

Similarly, the budget projects (p. 326) a $3 million supplemental appropriation in 1955 to carry out proposed legislation for the Soil Conservation Service. This amount is estimated to be completely obligated in 1955 and $2.4 million is to be spent in that year and $600,000 subsequently. The $600,000 likewise is shown as an obligated balance at the start of 1956 in the appropriate column in the second section of table 8.

The Governmentwide figures from table 8 are totaled to equal the figures shown on page M7 as follows (in millions):

	Actual		Estimated	
	End of 1952, start 1953	End of 1953, start 1954	End of 1954, start 1955	End of 1955, start 1956
Appropriations enacted or recommended:				
Obligated	$60, 738	$64, 755	$56, 886	$46, 485
Unobligated	8, 021	13, 944	9, 554	3, 749
Appropriations for later transmission:				
Obligated			23	3, 499
Unobligated			(1)	342
Reserve for contingencies (obligated)			25	75
Total (shown rounded on p. M7)	68, 759	78, 699	66, 488	54, 150

1 Less than $500,000.

BALANCES OF AUTHORIZATIONS TO EXPEND FROM DEBT RECEIPTS

In lieu of making appropriations, Congress sometimes authorizes certain expenditures to be made directly from borrowed money. Such authorizations may take these forms:

(*a*) Authorizations for the Treasury to make public debt receipts available to a given agency or enterprise, often in exchange for notes of the enterprise; for example, the authorization made in Public Law 101, 83d Congress, for the Veterans' Administration to make additional loans to veterans.

(*b*) Authorizations for a Government-owned corporation to borrow directly from the public; for example, the standing authority of the Federal Intermediate Credit Banks.

(*c*) Cancellation of notes held by the Treasury which are previously issued by a Government enterprise against authorizations granted as in (*a*) above. This action permits further expenditures to be made through "restoring" previously used authority to borrow from the Treasury.

As in the case of appropriations, the budget shows separately the authorizations to expend from debt receipts which are being handled as supplemental items for 1954 and 1955. In table 8 the balances of such supplemental items are shown under the heading "Authorizations to expend from debt receipts for later transmission" at the top of page A15.

Authorizations to expend from debt receipts grant the same authority to make budget expenditures as do appropriations. However, such authorizations have a different standing under the parliamentary procedures of Congress, and there are minor differences in the manner in which they are accounted for on the books of the Treasury.

Using the Department of Agriculture as an example again, the third section of table 8, entitled "Authorizations to expend from debt receipts," shows the balances of debt authorizations already enacted which are estimated to be unspent at the start of fiscal year 1955—$2,477 million obligated and $83 million unobligated. These figures consist of (in millions):

	Estimated, July 1, 1954	
	Obligated	Unobligated
Rural Electrification Administration, loans (pp. 366-367)	$506.3	$45.5
Farmers' Home Administration, loans (pp. 368-389)	1.1	
Commodity Credit Corporation (p. 390)	1,969.4	37.7
Total	2,476.8	83.2

It also shows similar balances of $1,291 million and $5 million estimated to be unspent at the end of the year 1955, after taking account of expenditures in 1955 and of the additional authorizations proposed in the budget for REA and the Farmers' Home Administration. These figures consist of (in millions):

	Estimated, July 1, 1955	
	Obligated	Unobligated
Rural Electrification Administration, loans (pp. 366-367)	$451.3	$5.5
Farmers Home Administration, loans (pp. 368-369)	1.1	
Commodity Credit Corporation (p. 390)	839.0	
Total	1,291.4	5.5

The budget shows as supplemental items (pp. 326–327, and p. 420) a further authorization for Commodity Credit Corporation, in the form of note cancellations, estimated at $775 million for 1954, and an increase in the basic Commodity Credit Corporation borrowing authorization, estimated at $1,750 million for 1955. It is estimated than an amount equal to the total of these two—$2,525 million—will be unspent at the end of the year 1955, although $664 million of it will then be obligated. The line for the Department of Agriculture in the fourth section of table 8 "Authorizations to expend from debt receipts for later transmission"—at the top of page A15—reflects these figures.

BALANCES OF CONTRACT AUTHORIZATIONS

Contract authorizations are authorizations to incur obligations prior to the enactment of an appropriation. A contract authorization does not in itself permit the spending of money; hence it must be followed by an appropriation to permit payment of the contracts and other obligations thus incurred.

Although substantive legislation has continued to provide contract authorizations for the public roads program and the Housing and Home Finance Agency, new contract authorizations have been discontinued in recent years for programs that had previously obtained such authorizations in appropriation acts. As a result, the balances of contract authorizations—reflected in the fifth section of table 8—are slowly being reduced, as appropriations are enacted and payments made to liquidate older contract authorizations.

The Department of Agriculture has no contract authorizations outstanding.

BALANCES IN REVOLVING AND MANAGEMENT FUNDS

Revolving funds are those which finance a cycle of business-type operations, in which the receipts of the funds are available for continuing use. The term includes both public-enterprise funds (Government corporations, and other funds with receipts primarily from outside the Government), and intragovernmental funds (stock funds, printing funds, and other funds with receipts primarily from inside the Government). Management funds are those which are created to permit the pooling of advance payments from two or more appropriations to carry out certain activities. The expenditures of such funds, less the receipts thereof, constitute a part of the net budget expenditures. The balances in these funds are a potential source of budget expenditures, although much of the expenditures might be recovered in receipts of a later year.

The last section of table 8 shows the balances in these funds. These are the amounts shown as balances with Treasury on financial statements of the particular revolving funds involved, and the amounts shown on schedules of the management funds, in the detailed part of the budget.

Where revolving funds also have authority to draw upon appropriations or authorizations to expend from debt receipts, the balances shown in this section of table 8 reflect only the portion of the authorizations which have been placed in the revolving fund, while the portion of the authorizations not yet transferred to the fund is reflected in the earlier portions of the table. The transfer from the authorization account to the revolving fund does not affect budget expenditures; only the actual spending of the money by the revolving fund is considered a budget expenditure.

In the case of the Department of Agriculture, the table shows that the obligations are minus figures in each of the 4 columns, and the figure as of July 1, 1955, will be $105 million. This is the excess of receivables over payables on the balance sheets of the various funds at that date. The "cash" of the verious funds is estimated to be $94 million on July 1, 1955. This sum plus the $105 million just mentioned, a total of $199 million, is available for obligation and is shown in the "Unobligated balance" column as of July 1, 1955. The "cash" balances are made up of the following (in millions):

	Estimated, July 1, 1955
Commodity Credit Corporation (p. 398)	$6.9
Federal Crop Insurance Corporation (p. 408)	33.1
Disaster loan revolvng fund (p. 411)	48.2
Other	5.6
Total	93.8

SUMMATION

Thus, the balances of the Government are shown on table 8 by agencies, broken down according to the type of authorization, and analyzed further as to whether the balances are the result of action already taken or now recommended in detail, or the results of supplemental action yet to be formally presented to Congress.

To illustrate, table 8 of the budget shows estimated balances for the Department of Agriculture in several sections, as discussed above and tabulated below. These figures are summarized for that department on page 323 of the budget. They are based upon detailed schedules appearing on pages 328–420. The balances for the Commodity Credit Corporation in the detailed schedules (on pp. 390, 398, and 420) as mentioned above are illustrated in the tabulation below (in millions):

	Sum of obligated and unobligated balances, start of fiscal year 1956	
	Department of Agriculture	Portion relating to ACC
1. Balances of appropriations enacted or recommended: Unexpended balances of appropriations enacted for 1954 or prior, plus unexpended balances of appropriations recommended in detail for 1955	$326.7	------------
2. Balances of appropriations for later transmission: Unexpended balances of probable supplemental appropriations for 1955, to be transmitted later in detail	.6	------------
3. Balances of authorizations to expend from debt receipts: Unexpended balances of debt authorizations, already enacted for 1954 or prior, or recommended in detail for 1955	1,296.9	$839.0
4. Balances of authorizations to expend from debt receipts for later transmission: Unexpended balances of supplemental debt authorizations for 1954 and 1955, to be transmitted in detail after the budget was transmitted	2,525.0	2,525.0
5. Balances of contract authorizations: Unliquidated balances of authorizations to obligate in advance of appropriations	------------	------------
6. Balances in revolving and management funds: Balances available in such funds. Does not include undrawn balances of debt authorizations in No. 3 and No. 4 above	93.8	6.9
Total	4,243.0	3,370.9

Mr. ENSLEY. Could I ask about the Budget in Brief, which in years gone by, the Budget Bureau has issued about this time? What is the status of that?

Mr. HUGHES. Well, it is almost ready, and we hope that it will get a good circulation. We think we have done a good job on it. We have included, we believe, the salient features of the big budget, and tried to condense it down without changing the presentation of the essential proportions and estimate. Will we have it this next week, do you think?

Mr. JONES. Yes.

Mr. HUGHES. So that anything you can say will help the circulation of it, and that will be fine.

Mr. ENSLEY. It always has been a useful document from our standpoint.

I think you are a little modest with respect to the economic brain power in the Budget Bureau. I know several top-grade economists in your office whom we continually call on for counsel and help.

Mr. HUGHES. Thank you. We know, too, but they do not purport to be the economic experts of the Government. They help us, however, many, many times.

Chairman WOLCOTT. Is there anything further of Mr. Hughes?

Mr. HUGHES. I certainly am very delighted for the opportunity to be here.

Chairman WOLCOTT. When we started, I promised we would get you out by 12 o'clock.

With respect to this press release and the schedule of witnesses, I take a lot of pride in it, but I have no pride in authorship because it was prepared by the staff and is a very good introduction.

Tomorrow we will meet with the Secretary of the Treasury as the witness, in room 1301, New House Office Building; that is the House Banking and Currency Committee. I might suggest that this record this morning be a public record. Thank you very much, Mr. Hughes.

Mr. HUGHES. Thank you, sir.

(Whereupon, at 12:10 p. m., Monday, February 1, 1954, the joint committee was recessed, to reconvene at 10 a. m., Tuesday, February 2, 1954, in room 1301, New House Office Building.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 2, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to notice, at 10:20 a. m., in room 1301, New House Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman), Senators Flanders (vice chairman), Carlson, Sparkman, Douglas, Fulbright, Representative Simpson (Pennsylvania), Talle, Bender, Patman, and Bolling.

Also present: Grover W. Ensley, staff director; John W. Lehman, clerk.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY, ACCOMPANIED BY HON. MARION B. FOLSOM, THE UNDER SECRETARY OF THE TREASURY; AND HON. W. RANDOLPH BURGESS, DEPUTY TO THE SECRETARY

Chairman WOLCOTT. All right, Mr. Secretary.

Secretary HUMPHREY. Mr. Chairman, members of the committee, I am pleased to have the opportunity to appear before your committee this morning to discuss the 1954 Economic Report of the President, which was submitted to the Congress last week.

I subscribe to the conclusion of the report to the effect that this Nation can make the transition to a period of less costly military preparedness without serious interruption in our economic growth. As the President says in the letter of transmittal, there is much that justifies confidence in the future.

Changes which this administration has put into effect, as well as others which have been recommended, in the tax structure contribute greatly to our confidence in the future.

As you gentlemen well know, this administration in the past 12 months has cut more than $12 billion in anticipated Government spending. This reduction in proposed spending made possible the tax cuts on January 1. These cuts now are leaving with the taxpayers over $5 billion a year which formerly was spent by the Government. We are cutting taxes, even though we have not arrived at a budget balance. There is a very good reason for this. We must always anticipate the reduction of Government expenditures and begin to transfer billions of dollars which the Government will not be spending back to the taxpayers so that there will not be any sudden dislocation resulting from the lack of those dollars being available to be put into the Nation's spending stream. In that way we help to maintain stability.

It is important to notice that we expect to almost reach a cash balance this year—and a small cash surplus in fiscal 1955. We are thus eliminating the necessity for cash deficit financing from the public which is inflationary particularly in times of high levels of activity. At the same time we are moving closer each year to an administrative budget balance, which is the goal we are determined to reach.

In addition to the $5 billion tax cuts of January 1, we are recommending a general revision of the tax system. It will do two principal things:

(1) It will make the tax burden fairer for millions of individuals by removing the more serious tax inequities and complications.

(2) It will stimulate production and create bigger payrolls and more and better jobs by reducing restraints and by encouraging initiative and investment.

Millions of Americans will benefit from better tax treatment for working children, child-care expenses, for doctors' bills, for annuities, from easier procedures in filing returns, and many other items.

And these same millions will benefit even more from such revisions as liberalization of the tax treatment of depreciation and partial relief from double taxation of dividends. Everyone will benefit because the economy will benefit, with the resulting creation of more jobs, with better tools and machinery to produce higher payrolls, and cheaper, better things for public consumption.

The tax-revision program, by helping the economy to grow and expand, will benefit every citizen, with steadier employment and higher standards of living.

In this connection, the proposal for some relief from the double taxation of dividends may not be too well understood. Under present law, earnings of a corporation are taxed twice—once as corporation income and again as individual income when they are paid out in dividends to the millions of shareholders in American industry. This has restricted the market for shares of stock in companies which want to expand and has forced them to borrow money instead of selling shares in their future. In the past 10 years better than 75 percent of private-industry financing has been done by going in debt instead of selling shares. What does this mean? It means simply that we have enterprise heavily in debt so that it doesn't develop as well or as quickly as it would without heavy debts hanging over it. Should business turn down, a company in heavy debt is, of course, easily drawn into trouble.

Better prospects for enabling companies to get shareholder financing—instead of going into debt—thus means better prospects for all Americans who work, for increasingly better jobs come more surely out of companies that are moving forward and expanding.

There has also been some misunderstanding about what we are proposing in depreciation. Depreciation is really the wrong word. Buildings and machinery not only wear out but they become old-fashioned, and neither the workman using them nor the business owning them can do as well either in earning wages or in decreasing costs as more modern, up-to-date equipment would make possible. Depreciation is simply the method by which the original cost of a building or piece of machinery is recovered over the years during which it is being used up and worn out. At the moment these deductions must usually be spread out evenly over the years for tax purposes. But if the cost of a piece of machinery has not been written off by the time it should be replaced with the better machinery, there is less inclination to buy a new piece of machinery that will do the job better and cheaper than keeping the old machinery still in use. Our proposal to let more depreciation be taken in early years does not increase the total that may be taken as tax deduction by one cent. It simply recognizes the facts and allows more of the deduction in earlier years. Doing so helps our economy to stay modern and up to date, and so to grow and expand faster. And, again repeating the obvious, out of this growing economy come more and better jobs. It also is very helpful to the small and growing concern in arranging its finances for new purchases of additional or more modern equipment and so aids small business to forge ahead.

Nothing can so add to our national strength and preparedness as modernization of the whole industrial plant in America, and nothing will make more sure more jobs at which millions of people can earn high wages by producing more and better goods at less cost.

These revisions, as they help our economy expand and reduce the taxes required, will also result in more personal income to be spent by taxpayers for their own account and in their own way and so will provide more money for the purchase of those better goods and services.

Additional tax cuts for all the taxpayers will, of course, benefit them. But until more reductions in Government expenditures are in sight further cuts in taxes will only add to the deficit. However, as rapidly as reduced expenditures can be seen, further tax reductions will promptly be made. In the meanwhile, putting first things first, we must make sure we are doing the things that by restoring initiative will keep our economy expanding. More tax cuts from the paycheck will be of little value if there is no job to make the pay check in the first place.

As long as Americans know there is adequate chance for gain they will save and invest. They will try new things that will bring forward new business, growing business, more jobs, better jobs, and higher standards.

In the past decade the growth of American industry was stimulated by debt and war and inflation. With these unwanted pressures fading, we need to again make initiative and enterprise more compelling if our economy is to continue to grow.

That growth stimulated by tax relief and reduction to almost every taxpayer in the Nation is the basic purpose of our tax program.

We believe that this tax program will help to build a firm foundation for the future health of our economy and that we can look to the future with great confidence.

I shall be glad to answer any questions, Mr. Chairman, and I have with me two of my associates whom I will be very glad indeed to have participate any time the questions reach into their particular field.

Chairman WOLCOTT. We interpret the President's program as quite optimistic, and predicated upon certain assumptions as to income, productivity, unemployment, and so forth. In keeping with that, can you give us your thinking on what we might expect about Government income in the foreseeable future?

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Secretary HUMPHREY. Mr. Chairman, I think we ought to start right out with this premise: I do not think that there is any man and probably never has been, and I think probably never will be, who can see very far into the future. I think maybe it is kind of lucky that that is true. If there were some fellow that could really see into the future and he had the courage of his convictions, it would not be long before he owned almost everything and we would all be working for him. Our opportunity to look into the future for any of us is very limited. It can only be done based on past experience and by getting as many of the facts as we can get together to make some judgment on, and then having made that judgment, the only sound thing to do is to keep currently reviewing it and changing your base and your activity and your planning as rapidly as you run into changes in the facts as they develop.

I think it is absolutely impossible for anybody to sit down and select a frozen program, saying that he knows exactly what is going to happen 3 months or 2 months or 6 months or a year hence, and then say, "That is it, and that is the way it is going to be."

Now, on the other hand, you cannot run a business or you cannot run a government, without making some estimates as to where you are going. If you wait until everything is past, you are always behind time. So you have to guess the future as best you can as you go ahead to estimate where you are going and then keep in mind that you must constantly revise as rapidly as a change takes place which warrants a revision.

Now, proceeding on that basis—and it is the only basis that I know of on which you can run anything of any magnitude—we have, of course, had to make estimates as to what our income would be and estimates as to what our expenditures would be. The expenditures can be estimated usually more accurately than the income can, because the expenditures are more nearly within your control, and you can reduce them or change them as time goes on so as to affect them to a certain extent.

We have at the present time, I think, the most difficult impediment to changing or controlling our expenses that is possible to imagine because so much of our expense is dependent upon our security, and our foreign policy and our military policy, so that we are not free to make as wide and as violent changes in our expenditures as might ordinarily be the case. But even so, we have some, and are gaining some control over expenditures, gaining more all the time, I think, as our policies become more definite and we can set our plans for expenditure into the policy planning or policy programs.

Our income for this year for this budget is based on a high level of activity. It is based on a good volume of production and it is based on good employment at high wages and on reasonable corporate profits. We made that assumption because, as we see it, at the present time we believe that we are justified in looking forward to that sort of situation. It is not a case of just sitting back and hoping. It is a case of planning for it and trying to do everything within our power, our sphere of activity, to create the conditions that will permit that sort of condition to exist.

There has been a lot of talk about, "Will the Government do something in connection with maintaining a high volume of business and activity," just as though the Government were sitting around waiting for some bell to ring or some event to occur, and then the Government would spring into action.

That, of course, is furthest from the truth. The Government is in this all the time. We have to be in it all the time. Our big financing, our refinancing of our enormous debt, every move we make in financing and in handling our debt has some effect upon the economy. It has some effect upon future business conditions, upon the ease of credit, and what we do and how we do it affects many things that affect business. Our taxes, our whole tax program and situation, have a tremendous effect upon what kind of business we will have, how much money the people will have to spend and how much money the Government will be spending, so that that has a tremendous effect on the economy. The activities and actions of the Federal Reserve Board have an important influence. They can either impede and run contrary to the natural trends, or they can supplement and assist the natural trends.

We have had experiences of their doing both things over the past few years.

Now, what we are trying to do—and if you go back into the history of our year in office, you will see that we have not sat down and said, "This is it, and that is going to be it and there is going to be no change." We have set general objectives that we are seeking to accomplish. We then are appraising and reappraising every day the facts as they develop, as we go along and then we are fitting our daily action always with our general objectives in mind, but realistically reappraising everything every day and fitting such things as the Government can do currently and continuously to try to promote the sort of conditions that will give us a high volume of business, a high volume of activity, and high employment.

That is what we propose to continue to do. It is for that reason that we have based our estimates of income we are going to have on the theory that we are going to be able to accomplish that purpose. When and if the time comes that that is not true, we will, of course, reverse and change with it.

Chairman WOLCOTT. The Treasury apparently has these assumptions in mind in estimating the relief from corporate taxes and personal taxes with respect to the 1955 budget. I think you can answer that with Under Secretary Folsom.

Secretary HUMPHREY. Would it be appropriate or helpful to the committee if Mr. Folsom would just run through the detailed figures here for a minute?

Chairman WOLCOTT. What we have in mind is that you labored under certain assumptions in arriving at your estimate of income for fiscal year 1955, and if there is anything which will add to the information you have already given us, I think it would be helpful to the committee.

Secretary HUMPHREY. I have given you the general principles that guide us, and I think if Mr. Folsom would just take 1 minute and run through the figures, he would show you the relations of the figures this year and last.

Mr. FOLSOM. Mr. Chairman, our estimates, as the Secretary has indicated, are based on the assumption that business and employment and income will continue substantially at the present high level. First, corporation profits are the most variable factor with us and the most difficult to estimate. In the Economic Indicators, this publication you get out each month, the latest figures from that show that in 1952 corporation profits before taxes were $39.2 billion. That is for the year 1952. For 1953, the first quarter, they were estimated at an annual rate of $44.6 billion; the second quarter, $45.9 billion; the third quarter, $43.3 billion. That is an average for the first 9 months of $44.6 billion a year.

We estimate that the year 1953 as a whole will be close to $44 billion. Our assumption for corporate profits for the year 1954 were using the figure, is $43 billion.

On personal income, the same document shows that the total personal income has fluctuated, in July of 1953 through November 1953, between $287.5 billion and $285.4 billion. We are assuming in our estimates a personal income of $285 billion.

Senator FLANDERS. Mr. Chairman——

Chairman WOLCOTT. Senator Flanders.

Senator FLANDERS. It has been my recollection that over the years past, the Treasury has tended to underestimate tax receipts, and in consequence the picture was always a little gloomier than it turned out to be. Do I understand that your estimates in your own mind are as liable to go up as go down, or down as go up? In other words, is it the closest thing you can make, or do you allow a little margin in there for a little push in it?

Secretary HUMPHREY. No, Senator. We have estimated this thing just as well as we are able to on the assumptions we have given, and we have given, I think, as fair assumptions as we can, as I have explained them to you, to base our figures on. We haven't anything up our sleeve, and we haven't any cushion in these figures. We are laying our figures right out before the public exactly as we see them on the basis we have stated.

Senator FLANDERS. We used to get into the habit of discounting the bad news. But you do not want us to do that in connection with these figures?

Secretary HUMPHREY. I think these are the best figures we can give you both ways. We have tried both with respect to the income, to put everything in that we think can properly be obtained, and we have to maintain a high level of activity in order to accomplish it. On the expense side, we have made all of the cuts in each of the departments—it has been gone over with the greatest care to make all of the reductions that can be made, we believe, without causing some loss of service, or less service than the public deserves. And which I have no doubt that the Appropriations Committees will find that we have overlooked something some place, I do not believe that it will be a big figure.

Senator DOUGLAS. I would like to direct my inquiry not to the fiscal year of 1954–55, but to the current fiscal year. And in the mimeographed sheet which I find before me, you estimate the deficit in the administrative for the fiscal year which will end on the 1st of July at $3,300 million, and that is the estimate on M–7 of the budget which you submitted.

Now, I hold in my hand the daily statement of the Treasury Department of the 27th of January, and I find there on the first side of the sheet that the deficit in the administrative budget as of that date was

$9,400 million. You evidently contemplate a reduction in the deficit in the remaining 5 months of the year of approximately $6,100 million.

Now, the question I would like to ask is this. For the corresponding 5 months of last year, 1953, which was a period of high prosperity during that first half-year, the reduction in the deficit was only $300 million, because the deficit on the 27th of January 1953 was $9.7 billion, and on the 1st of July, $9.4 billion. You evidently think that you are going to do $5.8 billion better this year than last year.

May I say that I realize that you are estimating that corporation profits will be roughly $5 billion more for 1953 than they were for 1952, and on a 52-percent corporation tax, this will yield $2.6 billion more. But also, the drop in the personal income tax of slightly over 2 percent of your total income for a half-year will produce a decrease of about $1 billion. So I can see where you get an accelerated rate of decrease of a little less than $2 billion, and therefore cut the deficit to, say, $7.5 billion. But I cannot see how you get a deficit of only $3.3 billion, and I should like elucidation on that point, if I may have it, for the current fiscal year.

Secretary HUMPHREY. Senator, I will be glad to tell you just briefly, and I will ask Mr. Folsom to go into the detailed figures. You are familiar with the operation of the Mills plan. And it largely comes about through that. The income for the previous year that you are referring to was based on the corporate income of the year preceding that. And at that time, 80 percent of it was paid in the first half of the calendar year.

Now, this time the income is based on the preceding year 1953, when corporate earnings were much larger, and we get 90 percent instead of 80 percent. So that a substantial discrepancy appears mainly because of the operation of the Mills plan.

Now, Mr. Folsom, if you will just be good enough to give them the figures, I think they will clear it up.

Mr. FOLSOM. I will explain the Mills plan, which started back in 1951. For instance, in the calendar year 1952, corporate profit taxes paid by calendar year corporations were at the rate of 35 percent in the first quarter, 35 in the second quarter. That was based on the profits for 1951. Now, the rest of the year it was 15 percent and 15 percent of the 1951 taxes, and in the following March and June, 40 percent and 40 percent of 1952 profits taxes. So you got a declining percentage in the last half of each calendar year. In calendar 1954, it will be 45 percent this March, 45 percent in June, 5 percent in September, and 5 percent in December.

In calendar 1955 it will be 50 percent in March and 50 percent in June.

Now, when you are comparing one fiscal year with the other you get into complications on that and you also get into complications on the level of corporate profits for the preceding year.

To give you the exact figures on it, for the fiscal year of 1953, from July 1 through January 28, 1953, these figures are from the Treasury's Daily Statement, the income from corporate taxes was $8,273 million. That was based on 30 percent of the tax on 1951 profits, because in the fiscal year which started on July 1, 1952, we were getting collections from the previous year, the calendar year.

Now, it happens that 1951 profits were at a high level, $43.7 billion. If you take the current fiscal year for the first 7 months, from July 1 up through January 28, that includes 20 percent of the taxes of the 1952 profits. The 1952 profits were $39.2 billion compared with $43.7 billion as the 1951 profits. So we are losing $4.5 billion in profits, and we are also getting only 20 percent of the taxes instead of 30 percent of the taxes. So that means that our actual collections up to date for the first 7 months were $5.7 billion as compared with $8.3 billion before.

If you are not familiar with this, you would assume that we are going to continue to decline at that rate for the rest of the fiscal year. But from now on it just reverses itself, because in the fiscal year 1953, in the last 5 months, from January 30 to June 30, we collected 80 percent of the 1952 profits, which brought us in $13.3 billion. The 1952 profits were low, only $39 billion. And now the rest of this fiscal year, the next 5 months, we are going to collect 90 percent of the tax on 1953 profits, and the 1953 profits were $5 billion more than the 1952 profits. So we have a $5 billion higher base and we collect 90 percent instead of 80 percent. So we are estimating that for the last 5 months of this fiscal year we are going to get $17.063 billion, as compared with $13.322 billion last year.

So the receipts from corporation profits are going to be about $3.7 billion more than in the previous fiscal year.

Now, we will not know until March how close these estimates are going to be. You see, in March we will get for the first time our collection for the taxes of 1953 profits. We have every reason to expect it is going to come out, because so far the corporation profits of 1953 are running up to our estimates; in fact, slightly above our estimates. But we will not know definitely until March 15 as to whether our estimates are right or not. But as far as the working of the Mills plan, we know that this situation will be as I have indicated.

As far as the individual income taxes, they are much easier to estimate there, because you do not have this variation between profits one year and the other, and you do not have the variation according to the Mills plan. So we are very confident our estimates on individual income will come out——

Senator DOUGLAS. Do you estimate that you are going to lose on individual income taxes as compared to last year?

Mr. FOLSOM. Because of the high level of employment, for instance, we are estimating that the individual income tax for the fiscal year 1954 will be $33.4 billion, compared to $32.5 billion for the fiscal year 1953. You see, we had a high level of personal income during the first 6 months of this fiscal year, and while it is declining some now, we are estimating for the year that it will be slightly higher, because we were starting on a low base in the 1953 fiscal year. It has been on a rising trend during the whole period. And we are losing some, of course, through the reductions of January 1.

Senator DOUGLAS. That is just the point. But you say those balance each other roughly, you think?

Mr. FOLSOM. No. We are estimating about $900 million more individual income tax in this fiscal year than we got last fiscal year.

Senator DOUGLAS. So that you think that you will collect $4 billion more in revenue during the last 5 or 6 months than last year, but you estimate you will cut down the deficit by $6.1 billion, whereas last year you cut it down by only $3 billion.

Mr. FOLSOM. The reductions in expenditures——

Secretary HUMPHREY. Expenditures account for the other, you see. You see, we are on a lower level of expenditures, so that that is a progressive thing.

Senator DOUGLAS. I hope you may be right.

Secretary HUMPHREY. I do, too.

Mr. FOLSOM. You see, our expenditures estimated for the whole year are $70.9 billion as against $74 billion for fiscal 1953.

Chairman WOLCOTT. Mr. Secretary, while you are on this subject, would it be possible for you to prepare and give us for the record the estimate of expenditures and receipts and balances per quarter for the remainder of this fiscal year and fiscal 1955?

Secretary HUMPHREY. We can do it for this fiscal year, Mr. Chairman, but I do not believe we are in a position yet to do it for the whole of the following year. We ought to know more about what Congress is going to do about the appropriations in order to see what we are getting out.

Chairman WOLCOTT. Of course, you would have to wait until you got the appropriations.

Secretary HUMPHREY. That is right.

Chairman WOLCOTT. What I have in mind is that we are up against this proposition of perhaps having to increase the debt limit. It might be helpful to us in evaluating that need if we had something like that.

Secretary HUMPHREY. I am sure that it will be helpful, and we will get those figures just as soon as we have them a little more accurately, which I think will not be too long. In the next 2 or 3 months, I think we will have a much better idea about our tax situation and what our tax bill is going to be, and we will have a good deal much better idea about the appropriations, and within the next 60 days or so, I think we will have those figures, and we will be very glad indeed to present them to you.

Chairman WOLCOTT. Would you give us for the record those which you can at the present time, estimating, of course, for 1955?

Secretary HUMPHREY. We will be glad to do it.

(The material requested follows:)

Actual budget receipts, expenditures, and surplus or deficit by quarters for fiscal year 1953 and first half of 1954, together with estimates for last half of fiscal 1954, are as follows (in billions):

	Receipts	Expenditures	Budget surplus (+) or deficit (−)
Fiscal year 1953:			
July to September 1952	$13.8	$17.7	−$3.9
October to December	13.1	18.5	−5.4
January to March 1953	20.9	17.4	+3.5
April to June	16.8	20.4	−3.6
Total, fiscal year 1953	64.6	74.0	−9.4
Fiscal year 1954:			
July to September 1953	13.8	18.1	−4.3
October to December	12.3	17.1	−4.8
Estimated:			
January to March 1954	23.0	16.2	+6.8
April to June	18.5	19.5	−1.0
Total, fiscal year 1954	67.6	70.9	−3.3

Chairman WOLCOTT. Are you through, Senator Douglas?

Senator DOUGLAS. I do not want to monopolize the questioning, but I would like to ask the Secretary a few questions about tax policy, if I may. But if there are others who want to question, certainly I will yield.

Chairman WOLCOTT. I just wanted to bring out one point which I had. In the present economic message, on page 5, if you have it there, under the general heading of "Measures to strengthen the economy," it talks about tax revisions so as to increase incentive. We are dealing in a great many assumptions here, I presume, but can't we assume that the President and the Treasury have in mind a program with respect to encouragement which is given to home construction, highway construction, public construction, and many other things, such as the program of accelerated depreciation?

Secretary HUMPHREY. We have presented to the Ways and Means Committee a program for accelerated depreciation. We are presenting to the Ways and Means Committee all of the items that the President mentioned in his State of the Union message, and many others. The tax bill that is being worked on, as a matter of fact, contains something like a thousand pages, and it has many clarifications and many revisions in it. The particular items with respect to depreciation are things that they are working on. I do not know just when the Ways and Means Committee is going to be ready to present their bill, but I hope very much indeed it will be very shortly. I hope that it will be within the next 2 weeks, or not longer than 3 weeks, that that bill will be ready for presentation in detail. It is quite necessary, I think, that it be done, Mr. Chairman, for this reason. I think, in talking about what the Government can and cannot do to stimulate individual activity and individual initiative—and after all, that is what makes America go. The thing that makes America go is 160 million American people. It is not any one thing. It is 160 million Americans all trying to do the best they can for themselves to move themselves forward, and their families forward. And that is what makes us tick in America. What Government can do is to do what it can, not to get in the way of those 160 million American people doing the best they can for themselves and to give them the best climate, to give them the best foundation upon which they can proceed to do things themselves.

Now, Government can and should in every way attempt to afford the facilities for the American people to operate with. That means credit. That means money. That means not more burdensome taxes than have to be levied. That means care in the handling of our debt. It means bank credit available for people to have. It means all the things that will promote the opportunity for the American people to do for themselves the best they can.

Now, our tax bill is based on the theory that we are trying to do everything that we can to create such a climate. The tax reductions are for the purpose of getting more money back into the hands of the people for the people to spend for themselves, rather than having the Government spend it for them. We are doing it ahead of time. We are getting the money back to the people actually before it is saved, or contemporaneously with the saving, so that it will afford an opportunity for the money to be in the buying stream as rapidly in the hands of the people as it is taken out of the hands of the Government.

Credit? We are doing everything that we can do to develop and promote credit facilities to give people opportunities to buy on the best terms they can, to induce them to buy, and I think that buisness itself has a tremendous responsibility here now to produce, to give so much value for the dollar that they will induce the American public to spend their money to buy the things that industry provides, because they are giving them a real value, and so that the buying will continue in this country, because if buying lags, we will sooner or later get into difficulties.

Chairman WOLCOTT. Mr. Secretary, to pinpoint the issue, we have on occasions authorized the President to do certain things in respect to amortization of private debts, down payments, and the needs of the economy. Now, perhaps I am taking you by surprise with this question.

Secretary HUMPHREY. That is all right.

Chairman WOLCOTT. If you haven't thought it through, do not hesitate to say so, because we know it is serious.

Do you want to discuss the advisability of giving the President the authority to invoke a program of accelerated depreciation if and when he sees the necessity for it, taking the economy into consideration generally?

Secretary HUMPHREY. I think, Mr. Chairman, that the program that we now have in mind, that has been presented, that the Ways and Means Committee has under consideration with the revision in the regulations that are under way and intended, is a very definite long-term incentive as well as a current incentive to the very thing that you are talking about.

And I believe that it is sufficient to cover the present needs.

Now, if it develops—and as I say, nobody can in this world get into a frozen position and say that anything is going to be sufficient for an indefinite period ahead. If it appears that what we have proposed is not sufficient, we will be very glad to come back to you and talk about something more, but we have developed what I believe—and the Ways and Means Committee has it under consideration—is a very sound program for depreciation that will promote modernization of plant and equipment which does so many things. In the first place, it increases the market for the making of the new machinery that is to be bought. It gives a man a new machine which lets him produce more goods, which lets him earn more by operating that machine. It lets the business prosper more by having that better machine.

That puts more payrolls out. That puts more money into circulation. The goods that are made on the new machine are cheaper than the goods that are made on the old machine. That induces people to buy. It gives them more value for their money, and they have the money to spend to buy the goods with, so that it just goes around and around, and I think that it is a very stimulating thing for the economy.

Chairman WOLCOTT. Regardless of that, you do not assume that there will be any necessity for such rapid change in that field that the Congress will not take the time to work on specific recommendations?

Secretary HUMPHREY. I do not know that. I think that we have a very sound program now. I would like to see this sound program get a chance to operate. I think, Mr. Chairman, that you can overdo the rapid amortization of plant. I think you can overdo it to an extent, and as a matter of fact, I think we have overdone it. I think one of the things right now that is causing a good deal of concern—I will just go to one industry—let us take the steel industry. The steel industry today, if you read the newspapers, is operating at a rate of 75 percent of capacity. You read the newspapers the year before, and the steel industry was operating at 101 percent of capacity.

Now, that looks as though there was a 25 percent decline in the volume of steel production. That is not true. The fact is that a great deal of steel capacity that was stimulated, new capacity that was stimulated by 5-year amortization programs that has been building has come into being within the last 12 months, and if you look at the actual tonnages of production, you will see that the actual tonnages now being made, compared with the actual tonnages being made a year ago, are not far different. More than that——

Senator DOUGLAS. Mr. Humphrey, what is the difference? I would like to know.

Secretary HUMPHREY. I haven't the last figure. For the month of November, it was almost identical.

Senator DOUGLAS. But as I read the figures from the Wall Street Journal, as of yesterday, there was a difference on a monthly basis, or on a weekly basis, for December, a drop from 2.2 to 1.7 million tons, or a decrease of around 500,000 tons, or a drop of, not 25 percent, but 23 percent. Now, that is subject to correction, but that is my memory of the Wall Street Journal figures.

Secretary HUMPHREY. But it is not 23 percent. The tonnage made in December is not as low as 73 percent or 75 percent of the tonnage of last December.

Senator DOUGLAS. As a matter of fact, my figures were for January, the week ending the 23d.

Secretary HUMPHREY. I do not know whether January figures are out yet or not. They do not usually come out until about the 4th.

Representative PATMAN. Mr. Chairman, at the right time I want to ask the Secretary some questions.

Secretary HUMPHREY. But if you will just take, Senator, actual figures of production, you will see that there is not as great a discrepancy as there is in the capacity figures.

Senator DOUGLAS. I have checked. The difference is about 23 persent.

Secretary HUMPHREY. It will be different from that. It will be different.

Representative BENDER. Mr. Chairman——

Chairman WOLCOTT. Mr. Bender.

Representative BENDER. In that connection, I heard the distinguished gentleman from Illinois on television this morning, and he emphasized the very thing he brought out now.

I wish, Mr. Secretary, that you could restate that again, because the country was given the impression this morning by the gentleman from Illinois of the idea that the steel business was 25 percent off as compared to a year ago.

Is that correct, Senator?

Senator DOUGLAS. No. I said that last year at approximately this time the steel industry was operating at approximately 100 percent of capacity, and the last figures that I have are that the steel industry is now operating at 74 percent of capacity. Now, either in the Wall Street Journal or the New York Times, you had the average production in physical units in a given week as compared to the corresponding week of last year. Subject to correction, I think that difference was approximately between 2.2 million tons per week as of last year and 1.7 million tons as of the same week this year, which would be a reduction of a half million tons, or roughly 23 percent.

Now, I agree that this correction that the Secretary makes is a proper one, but I do not think it produces such a catastrophic change as perhaps some might imply, or perhaps my good friend from Ohio is anxious to imply from his statement.

Representative BENDER. I gather from the gentleman's remarks that we were in a declining era to such a degree that it was alarming.

Senator DOUGLAS. No. I simply quoted from the Wall Street Journal, Mr. Bender, since you brought this up, and I do not believe that the Wall Street Journal will be accused of being in league with the dark forces of disorder. I read the first paragraph next to the right-hand column in yesterday's issue (February 1), which says as follows:

> Little more than a glance at the headlines in today's issue of this newspaper is needed to know what is the principal question facing business today. It is, as has been the case for many weeks, how long the recession—

not rolling readjustment, not mild contraction, but—

> how long the recession, which started 6 months or so ago, is going to last, and how deep it will go.

I did not bring this up, but since the Representative from Ohio did, I think it is proper that I should state exactly what I said, and everything I stated this morning was taken from the pages of the Wall Street Journal. Now, if Mr. Bender wishes to attack the credibility of the Wall Street Journal, that is his privilege to do so.

Representative BENDER. I do not read the Wall Street Journal, so I do not know very much about it.

Senator DOUGLAS. It is a very good journal. I recommend it.

Secretary HUMPHREY. Mr. Chairman, I do not want to attack the Wall Street Journal, but I would like to bring to the Senator's mind that his statement is susceptible of misinterpretation.

Senator DOUGLAS. Not by intelligent people.

Secretary HUMPHREY. By anybody that does not really know the facts.

Here are the figures. I have here the figure for November of 1952. That was 2,200,000 tons. The figure for November 1953, was 2,031,000 tons.

Now, if we will go down here, you will see——

Senator SPARKMAN. Pardon me, Mr. Secretary. What page is that, please, sir?

Secretary HUMPHREY. I am reading from the Economic Indicators of January 1954.

Senator SPARKMAN. What page?

Secretary HUMPHREY. That is on page 13.

Senator DOUGLAS. Would the Secretary continue and read the figures for the 9th of January?

Secretary HUMPHREY. Yes. The 9th of January is 1,788,000, and we haven't got the corresponding week. You see, you are getting into weekly figures when you get down there. But let us just take the month of December and see if we can get other——

Senator DOUGLAS. December 1952.

Secretary HUMPHREY. The last comparable figure I see here is the month of November.

Senator DOUGLAS. Let us take the month of December, Mr. Secretary, 1952.

Secretary HUMPHREY. The month of December was 2,193,000.

Senator DOUGLAS. 2,193,000 tons.

Secretary HUMPHREY. What?

Senator DOUGLAS. 2,193,000, for December 1952.

Secretary HUMPHREY. That is right.

Senator DOUGLAS. And for December 1953, 1,795,000 tons. That was a fall of 418,000 tons, or approximately 20 percent as of December. Now, my point is that if you take comparisons between January 1953, and January 1954, you will find the percentage decline is somewhat greater.

Secretary HUMPHREY. Well, I am trying——

Senator DOUGLAS. I know you are a very honorable man, but I do not think you should pooh-pooh this decline in production, and I would like, furthermore, to quote a report, if I may, from the U. S. News and World Report, which is not a Democratic organ, by any means. On page 92 of the issue for February 5:

> Steel operations were scheduled at 73.8 percent of capacity in the week ended January 30, against 74.1 the previous week. Tonnage was 21 percent below a year ago.

So while I agree with you that the refinement of relative tonnage as compared to percentage of capacity is desirable, it does not produce this great change that our friend from Ohio implied from your figures.

Secretary HUMPHREY. That is the point I am trying to explain to you, that the tonnage figures are not as great a discrepancy as the figures of theoretical capacity.

Senator DOUGLAS. By 2 or 3 percent, but the decline in tonnage figures is 21 percent.

Secretary HUMPHREY. That, of course, is a declining thing, as the facilities that have been brought in come in and we have been in for a longer period of time. If you go back for the full year, it will make a difference of as much as 10 percent.

Representative BENDER. I have great respect for the gentleman from Illinois, but I heard his statement this morning, and I thought I was alert. In fact, I was listening very hard, and certainly the vibrations that I received must have been the vibrations of the ordinary citizen——

Senator DOUGLAS. I think you are supersensitive on this, Mr. Bender.

Representative BENDER. No, we are not sensitive.

Senator DOUGLAS. I am afraid you are a split personality.

Representative BENDER. I think the gentleman from Illinois is doing what most of these——

Senator DOUGLAS. Prophets of doom?

Representative BENDER. Prophets of doom, inciting the fears of the people that we are in a horrible sort of way now.

Senator DOUGLAS. I simply said that there had been a recession. That is all I have been saying. And I quoted this morning from the Wall Street Journal using that exact term. Now, if this be treason, as Mr. Martin seemed to imply in his Philadelphia speech, the gentleman from Ohio can make the most of it.

Chairman WOLCOTT. Before I forget it, I would like unanimous consent for the mimeographed estimate——

Senator DOUGLAS. May I say that I did not bring this up——

Chairman WOLCOTT. Just a moment, please, Senator Douglas.

Senator DOUGLAS. I only believe in defending myself from attack from the other side. On these points, I am not a nonresistor.

Representative BENDER. Did I misstate what you had said?

Senator DOUGLAS. The inference that you drew was not particularly kind or accurate.

Representative BENDER. I got a goodly number of inferences from what you said.

Senator DOUGLAS. Well, read the Wall Street Journal, and I will pay for a month's subscription for you, and it will be the best education, George, that you have had in a long time. The correspondent of the Wall Street Journal is here. Let him enter a subscription for the Honorable George H. Bender, of Ohio, for 1 month.

Representative BENDER. Thank you very much. I will read it every morning.

Chairman WOLCOTT. I suggest that the advertising that the Wall Street Journal has gotten this morning might justify their giving each of us free a year's subscription.

May I have consent to put in the record this mimeographed sheet which the Secretary has referred to, on the President's budget including proposed legislation, deficit in the event excise and corporate rates are not extended, and so forth?

Without objection, that will go in the record at the proper place.

(The table referred to follows:)

Budget deficit under various tax assumptions

[In billions of dollars]

	Fiscal year 1954	Fiscal year 1955
President's budget including proposed legislation:		
1. Receipts	67.6	62.7
2. Expenditures	70.9	65.6
3. Deficit	3.3	2.9
Effect of failure to adopt proposed tax legislation:		
1. Extension of corporate rate at 52 percent		1.3
2. Extension of present excise rates	.2	1.0
Deficit in the event excise and corporate rates are not extended	3.5	[1] 5.4
3. Revenue revision program		−1.3
Deficit under present law	3.5	[1] 4.1

[1] Includes $200 million refunds under the excise taxes.

Representative PATMAN. Mr. Secretary, in the President's message on the budget, he stated on page M–13, "Nearly three-quarters of the debt we inherited a year ago matures within less than 5 years or is redeemable at the holder's option," and adds this important statement: "Too large a proportion is in the hands of banks."

The President then discusses the efforts made by the Treasury to lengthen the maturities of the debt.

I would like to interrogate you, Mr. Secretary, about your goal on this particular program. In other words, is it your ultimate goal to get all of the Government bonds out of the bank?

Secretary HUMPHREY. No, no, Mr. Patman.

Representative PATMAN. What proportion, then, do you consider that it is in the public interest for the banks to hold?

Secretary HUMPHREY. That will vary from time to time, and it will vary in relation to the maturities of the various obligations and how long some of them have been extended. It all fits into a pattern of how you handle the entire debt and what effect it has upon the current activities of the economy.

Representative PATMAN. But you do consider that too much of the debt is now in the hands of the banks?

Secretary HUMPHREY. That is right.

Representative PATMAN. Too much?

Secretary HUMPHREY. Too much is short and too much is in the hands of the banks.

Representative PATMAN. And you think that the banks should own fewer Government bonds?

Secretary HUMPHREY. I think it would be wise if they could, yes.

Representative PATMAN. In other words, now, the banks are pretty well loaned up on their investments in governments, are they not, Mr. Secretary?

Secretary HUMPHREY. I do not know as you would say they are loaned up. They have more than we would like to have them have right at the present time.

Representative PATMAN. Is it not a fact that you receive complaints from people over the country to the effect that they cannot get consideration from local banks because they claim that they are pretty well loaned up?

Secretary HUMPHREY. There have been some. On the other hand, there seems to be, taking the country over, plenty of bank credit.

Representative PATMAN. Plenty of bank credit?

Secretary HUMPHREY. There are some places, there are some spots, geographically and all, where bank credit is tight. But taken by and large, there seems to be plenty of bank credit.

Representative PATMAN. I believe the President said in his state of the Union message, "Our financial institutions are fully capable of meeting all reasonable credit demands."

I assume he means there that they, having access to the Federal Reserve, could always get additional reserves if they need them?

Secretary HUMPHREY. That is right.

Representative PATMAN. And therefore they can supply the additional demands for credit.

Secretary HUMPHREY. That is right.

Representative PATMAN. You have a lot of power and authority over monetary matters, Mr. Secretary, and what you do will naturally influence the money market some, but what do you consider to be the agency that has more power over the money market today than any other agency within the United States Government?

Secretary HUMPHREY. Of course, you are referring to the Federal Reserve Board. Everything——

Representative PATMAN. No. You are putting words in my mouth, Mr. Secretary. I am not referring to them.

Secretary HUMPHREY. Aren't you?

Representative PATMAN. I am referring to the Open-Market Committee.

Secretary HUMPHREY. Oh, the Open-Market Committee.

Representative PATMAN. Do you not agree that it has more power than any other agency of our Government?

Secretary HUMPHREY. Well, I do not think I would say that. I think the Federal Reserve Board probably has the most power over the immediate matters that you are talking about. I think that perhaps the Treasury itself, in the handling of the debt, can exert a very substantial influence. It is a thing that we have to be very careful to see that we handle as wisely as we can.

It is easy to upset this economy in lots of ways.

Representative PATMAN. Yes, sir. But the Board of Governors does not have the power to go into the market and find available Government bonds, as such; that is correct, is it not?

Secretary HUMPHREY. Well, I think you would be better off to talk to Mr. Martin about the Federal Reserve Board.

Representative PATMAN. I think as Secretary of the Treasury, you have—you are assumed to have knowledge of these things.

Secretary HUMPHREY. We are trying to let the Federal Reserve Board act as independently as possible.

Representative PATMAN. As independently as possible? And what do you mean by the word "possible"?

Secretary HUMPHREY. Just as independently as they can.

Representative PATMAN. As independently as they can. Is there a point where you would challenge that independence?

Secretary HUMPHREY. I have never seen the point. I do not know. When you say "never," it is a long time. There is no point that I know of now.

Representative PATMAN. But in the foreseeable future, you do not see any possibility of your challenging the independence of the Federal Reserve?

Secretary HUMPHREY. That is right.

Representative PATMAN. You recognize that they are independent now?

Secretary HUMPHREY. That is right.

Representative PATMAN. And they are not subject to your influence, nor the President's influence?

Secretary HUMPHREY. Well, now, you are covering a lot of territory.

Representative PATMAN. I know I am, Mr. Secretary.

Secretary HUMPHREY. I think you had better talk to Mr. Martin about what this situation is I am talking about—so far as the Treasury is concerned, the Treasury is not in any way dictating to the Federal Reserve Board.

Representative PATMAN. Fine. I will confine my questioning, then, to matters that are wholly within the jurisdiction of the Secretary of the Treasurer.

Secretary HUMPHREY. That is better.

Representative PATMAN. Last year you asked for an increase in the national debt limit from $275 billion to $290 billion.

Secretary HUMPHREY. That is right.

Representative PATMAN. To the best of my recollection, you painted a rather gloomy picture for the country if the Congress did not grant that increase. You felt like it was absolutely necessary. In view of the fact that you did not get the increase, in the light of what has happened, don't you think you really did not need it?

Secretary HUMPHREY. No, I do not. In fact, I am sure that it was a mistake not to have granted it.

Representative PATMAN. In what respect and in what particulars?

Secretary HUMPHREY. If you think the picture that we presented was gloomy, that is your proper interpretation of it. We presented what we thought were the real facts.

Representative PATMAN. I do not doubt that statement.

Secretary HUMPHREY. And those facts were almost exactly borne out except for things that were done after the committee of the Senate decided that they would not grant the increase, that they would hold it up. The day that was done, I told the committee, when they made their decision and decided that they would not report this bill out, I said to them, "We will do everything in our power to abide by your wishes. We will go out and we will make every move that we can to keep within this debt limit. I think we will have to do some things that may not be as wise. I think you will restrict us in our activities. But if that is what you want"—and they were in the driver's seat at that time—"we will do everything we can to comply with your wishes," and that is exactly what we did, "and avoid calling Congress back for a reconsideration of that subject."

Now, you realize, of course, that the difficulties with respect to the debt limit are most acute in the last 6 months of the year, because of the operation of the Mills plan.

Representative PATMAN. That is right. I agree with you.

Secretary HUMPHREY. So that if we could get by from July, when the committee made that decision, to the 1st of January, we would be in pretty bad shape except for a few very low spots. Now, we have had a very low spot early in January. We got down to about $2 billion on deposit in January. That is 10 days' cash on hand to pay bills with. That is no way to run a government or a business or anything else.

Representative PATMAN. Where did you consider that $2 billion was?

Secretary HUMPHREY. That was the total of our bank deposits on that day.

Representative PATMAN. The deposits you maintain in about 11,000 banks?

Secretary HUMPHREY. I think it is about 11,000, 10,000 or 11,000, something like that.

Representative PATMAN. Funds on deposit got down to about $2 billion?

Secretary HUMPHREY. That is right.

Representative PATMAN. But is it not a fact, Mr. Secretary, that your recommendation was predicated on your sincere belief you should have about $9 billion in the bank at all times?

Secretary HUMPHREY. No. I never thought of $9 billion. In fact, I think that would be excessive. I thought we ought to have about a month's spending on hand. If we had about a month's bills on hand, that would be sufficient. Now, if we are spending at the rate we were then, at the rate of $74 billion a year, that meant about $6 billion. Now we are spending at a lesser rate, and we are getting down now to where a month is between $5 and $6 billion.

Representative PATMAN. And you have about $4 billion on hand?

Secretary HUMPHREY. It depends on your turnover, just as it does with a grocery store or with any other business.

Representative PATMAN. Now, this is another place where I want to ask you some questions, Mr. Secretary. I do not agree with you about keeping money in the banks. In fact, I think it is a burden on the taxpayers that should not have to be borne by them. I respectfully suggest to you, Mr. Secretary, that it is not serving the public interest to keep this money in the 11,000 banks. It does help the banks temporarily over a rough period. But the banks are the ones that should make the adjustments. The money should go directly into the 12 Federal Reserve banks. I invite your attention to the fact that when the Federal Reserve Act was passed, it had in mind abolishing the subtreasuries. There were about 9 or them, I believe, at that time. The subtreasuries were the fiscal agencies of the Government, and checks were drawn on the subtreasury. When the Federal Reserve Act was passed, it was contemplated that the 12 Federal Reserve banks would be the fiscal agent of the Government, and the money would be checked on through the 12 Federal Reserve banks. Do you not agree with that?

Secretary HUMPHREY. No. I think it is very much better the way it is now. And just to save a lot of time, we have a written statement on this which I would suggest it would be wise to read into the record right now.

Representative PATMAN. Let me develop my questioning just a little bit further, if you please.

You never check on these 11,000 banks directly, do you? That is, you do not draw checks on any of the 11,000 banks to pay Government bills?

Secretary HUMPHREY. No. It takes the form of debits and credits.

Representative PATMAN. That is right. When you want any of that money, you call on those banks to send a certain percent of it to the nearest Federal Reserve bank; do you not?

Secretary HUMPHREY. That is right.

Representative PATMAN. In other words, whenever you keep that money in 11,000 banks you are keeping it beyond your control?

Secretary HUMPHREY. No.

Representative PATMAN. You cannot check on it at all?

Secretary HUMPHREY. Well, it is just a method of how you handle it.

Representative PATMAN. You have to take another step to get that money within your power to distribute.

Secretary HUMPHREY. That is for ease of bookkeeping. That is all. The money is constantly flowing from the banks into the Treasury accounts of the Reserve banks.

Representative PATMAN. Why should you not, Mr. Secretary, do as Mr. Summerfield has done in the Post Office Department? He has recently required all of the post offices to send the money that is deposited with them on postal savings directly to the nearest Federal Reserve bank. I am sure you are acquainted with that.

Secretary HUMPHREY. That, of course, is a relatively small amount of money; it is their surplus funds. Postmasters all over the country still have accounts in commercial banks.

Representative PATMAN. It runs into some billions of dollars a year; does it not?

Secretary HUMPHREY. Well, it is relatively small, that goes through the post offices, and it is widely dispersed, so that you do not get a great dislocation.

Representative PATMAN. This is in 11,000 banks. That is widely dispersed.

Secretary HUMPHREY. You would get a great dislocation with the amount of money that we have to handle.

Representative PATMAN. You mean by that, from the time that the bonds are purchased locally until that money finds itself back in that bank, there is dislocation?

Secretary HUMPHREY. That is right, but there is also a great deal of tax money flowing through the tax and loan accounts.

Representative PATMAN. Wasn't that one of the purposes of the Federal Reserve System, to take care of such dislocations? It was written into the law that they could get short-term loans from the Federal Reserve banks to take care of just exactly the situation that you have mentioned, instead of having $6 billion in the 11,000 banks, upon which you cannot check and do not check. Since this is costing the Government from $120 million a year at 2 percent to $180 million at 3 percent, do you not think you ought to send that money into the Federal Reserve banks, just as the law contemplates? If any bank feels like there is dislocation there, let the bank adjust its situation through the Federal Reserve System in the manner which Congress has wisely provided they do and thereby save the taxpayers money.

Secretary HUMPHREY. No, Mr. Patman. I think it would be exactly the wrong thing to do. Now, the reason we do not get interest on our money, I am sure you are aware, is because Congress passed a law and prohibited the banks from paying it. You are aware of that?

Representative PATMAN. I beg your pardon?

Secretary HUMPHREY. The reason we do not get interest on this money is because Congress passed a law prohibiting it.

Representative PATMAN. But that was in the depths of the depression, and for a temporary period of time. Now for some reason nobody seems to be looking after the taxpayers' interest—and all of us are guilty—and we haven't brought this matter to the attention of the Congress in an effective way to get it changed.

Secretary HUMPHREY. Well, it has been going on since 1933. That is quite a neglect.

I will just read this, Mr. Chairman. I think this will answer for the benefit of the committee the questions that are raised. We tried to state it as shortly and as succinctly as possible:

Out of 14,000 eligible banks in the United States, approximately 11,000 have Government deposits. These accounts serve as a pipeline for the flow of taxes and the proceeds from the sale of Government securities from the public into the Treasury's accounts at the Federal Reserve banks. They also serve as temporary reservoirs on which the Treasury draws as it needs funds. The amount now in these accounts is equal to about 2 weeks' expenditures of the Government.

Representative PATMAN. There are about $4 billion in the banks today, according to your statement.

Secretary HUMPHREY. This was written about a week ago or 10 days ago, and at that time this was accurate. I think we had at that time about $2½ billion. As of last night, we had $2,507 million in special depository accounts in commercial banks and $312 million in Federal Reserve banks. Thus, we had $2,819 million of immediately available funds.

Representative PATMAN. Yes.

Secretary HUMPHREY (continuing):

> The Treasury keeps money in banks because (a) it is the most efficient and economical way to handle the Government's business, and (b) it avoids withdrawing funds from communities before they can be returned through Government disbursements.
>
> Congress passed the National Banking Act in 1863 specifically authorizing the Secretary of the Treasury to deposit money in banks after efforts by the Government during the Civil War to act as its own banker failed, resulting in the suspension of specie payments.
>
> The present system enables the Treasury to keep a smooth flow of money despite the unevenness of the flow of Government revenue and expenditure.
>
> Assume for instance that bank X in Panhandle, Tex., sells a half million dollars of savings bonds to its customers. This money is left on deposit in Panhandle until it is needed at the Federal Reserve bank of Dallas to pay the Government's bills. If this money should immediately be withdrawn from the bank at Panhandle, before it can be returned to channels of trade through Government disbursement, the money in the community of Panhandle would be transferred to Dallas.
>
> During heavy tax periods particularly there would be a tremendous shifting of funds between banks and between communities. The transfer of $8 to $9 billion in the middle of March from the various communities throughout the country to the accounts of the Government just at Federal Reserve banks would play havoc with the banking system and business and with local communities. In order to meet such withdrawals, in many instances, banks would have to restrict credit and liquidate securities in the market.
>
> Millions of dollars of additional clerk hire, costs of currency shipments, and transfer of funds would be necessary if the Government should handle the business now handled for it by banks in connection with deposits of withheld income and social-security taxes, the issuance of United States savings bonds, and the handling of subscriptions to other types of Government securities. If all remittances had to be sent to Reserve banks for collection, the Government would have many more millions of dollars tied up in process of collection.
>
> All Government deposits in banks are fully secured by securities pledged with the Federal Reserve banks; also, member banks are required to maintain a reserve with Federal Reserve banks against Government deposits as well as other deposits. At the present time this reserve amounts to about 18 percent for all classes of member banks.
>
> Under the Banking Act of 1933, banks are prohibited from paying interest on demand deposits, including Government deposits, which is often only for a few days in any definite amount, and the services they render, the present arrangement appears equitable

And it is very satisfactory in its working.

Representative PATMAN. Mr. Secretary, that is an excellent statement from your standpoint, but you are overlooking one thing, and I believe you will admit that you are. When you paint a real gloomy picture down there of what would happen to the Panhandle Bank of Texas, saying that they would have to liquidate loans and sell their securities, you know, Mr. Secretary, that they can go to the Federal Reserve bank at Dallas and take care of that dislocation. That is the object of the entire System. That is why they use the Government's credit.

Secretary HUMPHREY. But why should they do that when this is a perfectly simple, easy method of operation?

Representative PATMAN. Well, you are making the taxpayers pay it instead of the banks. That is all. In other words, it is my understanding you have an agreement with these banks that they can keep a minimum on deposit.

Secretary HUMPHREY. No; we never have. We haven't any such agreement.

Representative PATMAN. Haven't you testified that in the case of one small bank which normally had from $250,000 to $70,000 on deposit of Government money there was a positive understanding that you would always let them keep $70,000 on deposit? Is that not correct?

Secretary HUMPHREY. That is not correct. The balances fluctuate with the business handled. That is exactly the same as you have to do in any business. We may happen to have a local bank that was cashing checks for a Military Establishment and we want that Military Establishment served and we want the boys to be able to cash their checks in a local bank. We tell the local bank that for that purpose we will keep an amount on deposit that they could count on to render the service. That had nothing whatever to do with this.

Representative PATMAN. In that case, you are not checking on that bank at all.

Secretary HUMPHREY. That has nothing to do with this. You are talking about two entirely different things.

Representative PATMAN. Well, anyway, Mr. Secretary, you do in certain cases agree that you will not drop the deposits below a certain minimum?

Secretary HUMPHREY. Only where some governmental service is required for a local community, which has nothing to do with this general system. In our special depository system, there is no fixed amount kept on deposit with any bank.

Representative PATMAN. Now, it is not a fact that so doing, you are going against the interest of the public, although I know you are conscientious and honest in your views and convictions in doing it, for this reason: A bank in buying $100 thousand of Government bonds, in effect creates the money upon the books of that bank to buy the $100,000 worth of bonds. When they receive the $100,000 worth of bonds, the bank continues to collect the interest on those bonds. The banks keep the money on deposit up to where you say it totals $6 billion a year in the Nation, and lend that money out locally. In other words, they get interest on it twice. They get interest when they buy the bonds, and then by being able to keep it, they can use it to extend loans and get interest that way. If you required them to send that money directly in to the nearest Federal Reserve bank, as Mr. Summerfield does—and I commend him for it—then it would become subject to the Treasury's check. It is not subject to the Treasury's check until it gets there. It is not in Uncle Sam's pocket until it goes into the nearest Federal Reserve bank. If you put it in Uncle Sam's pocket, than the bank, in order to take care of any dislocation, could do exactly what Congress contemplated and wrote into the law; go to the nearest Federal Reserve bank and receive an accommodation to take care of that dislocation.

That way the bank would be paying a very small amount of interest, which would be nothing compared with the 2 percent or 3 percent that the taxpayer is required to pay. Don't you think it would be better, Mr. Secretary?

Secretary HUMPHREY. I am sure it would not. I don't see how you can say that banks are getting double interest from the Government any more than from anybody else that they loan money to. A Government deposit is created when the bank loans money to the Treasury. A private deposit is created when the bank loans money to a businessman or an individual. There isn't double interest involved in either one.

Suppose a bank has bought $100,000 of Government securities from the Treasury and paid for them by giving the Treasury a deposit credit of $100,000. If a profitable loan opportunity should come up the bank could sell those Governments and use the money to loan out to a customer. But it couldn't keep the $100,000 investment and still loan the same $100,000 out to a customer. So it couldn't very well earn interest twice.

You are going all the way around Robin Hood's barn to accomplish a very simple thing. We do not get any interest on our money in the Federal Reserve bank any more than we do in the local bank.

Representative PATMAN. But you can pay it out.

Secretary HUMPHREY. And you are complicating the entire subject for no purpose whatever, and costing a lot of money in extra bookkeeping and extra transfer of funds.

Representative PATMAN. You would not then be charging the taxpayers from $120 million to $180 million a year for no service that they receive.

Senator HUMPHREY. You are not charging them now.

Representative PATMAN. Well, of course, I differ with you, Mr. Secretary.

I suspect it would be quite a sizable sum, if you were to see the average amount kept by any bank in the United States; I mean, among the 11,000 banks with Government deficits.

Secretary HUMPHREY. You would not be getting any interest on it if it was in the Federal Reserve bank. And we have to have on hand about 30 days of money to properly run our business. Now, we have not been running our business properly for the last 6 months. We have lost some opportunities in our financing. We have been cramped. We have had to put out extra paper. We have done a number of things in order to try to comply with this debt limit, that has cost the Government money, and I think we may have missed some opportunities in our financing that will not return. Now, we will not know about that.

Representative PATMAN. Do you feel that you are handicapped by the debt limit?

Secretary HUMPHREY. We are definitely handicapped by the debt limit, and have been for 6 months.

Representative PATMAN. Mr. Secretary, I was opposed to an increase in the debt limit last year, but I would vote for it any time that it is necessary. I only opposed it because I wanted to make you use that $9 billion. I think it is really hypocritical for me as a Member of Congress to vote for raising the amounts appropriated, and then make it impossible for you to pay the bills. I think it is like a Member of Congress voting for all appropriation bills and against all tax bills. I do not believe in that. The only reason I opposed it last year was because I wanted to compel the Treasury to use that $9 billion.

Secretary HUMPHREY. What $9 billion?

Representative PATMAN. The $9 billion that I was told that you had.

Secretary HUMPHREY. That we had for a few days in July, but all of that money was not on deposit in commercial banks.

Representative PATMAN. But anyway, you had it. You had quite a sizable sum, and you have $4 billion today that the taxpayers are paying interest on and getting nothing for it, while banks are getting the use of it free of charge.

Do you consider that the national debt will ever be paid, Mr. Humphrey?

Secretary HUMPHREY. Well, "ever," is just about as bad as "never." That is a long, long time.

Representative PATMAN. Do you anticipate making any payments on the national debt in the next 4 years?

Secretary HUMPHREY. My feeling about payments on the national debt is just this. There is only one way that you can pay down on the national debt, and that is to tax the people more money than you are spending.

Representative PATMAN. That is right.

Secretary HUMPHREY. And when you tax the people more money than you are spending, the surplus that is left should be used to reduce the debt. And it is the only way that it can be done.

Now, as long as we are required to maintain the very heavy military expenditures that we are under for our security, as long as we are forced to spend these tremendous sums for that purpose, and we have to tax the people to get that money, I do not think that it is wise to tax the people more than that very great amount in order to pay down on the debt. I think we had better be content not to do so.

Representative PATMAN. And the answer to my question, then, is that in the next 4 years you do not see any payments?

Secretary HUMPHREY. No; that is not the answer. I do not know when we are going to have some sort of peaceful arrangement. I do not anticipate it within 4 years, because I do not anticipate that the world is going to come to peace within that time. But the time will come sometime. It has got to come in the world sometime, when these armaments, these expenditures for armaments throughout this entire world will be suspended and will be reduced. The world cannot take it, in my opinion, on the basis of which it is now going on, for an extended period of time. Some day that has got to stop. When that stops, when our expenditures for armaments, those tremendous expenditures, can be radically reduced, we can then, I believe, reduce our income slower than we can reduce our expenditures, and we will have some surplus to begin to pay down on the debt.

Representative PATMAN. Well, won't we reduce taxes again, just as we have done?

Secretary HUMPHREY. Now, when that will be, I do not know.

Representative PATMAN. But is it not a fact, Mr. Humphrey, that our economy is now geared to the point where any reduction in the national debt would be deflationary? In other words, our economy is geared to debt. Without debt, there is no money. Our money is based upon debt. And if we are to pay off our national debt, it would be paralyzing to the economy. We might just as well recognize that within the foreseeable future this debt is not going to be paid; it is not even going to be reduced. If we were to reduce it substantially, it would be so deflationary that other things would have to be done to create a situation to offset it.

Secretary HUMPHREY. Well, I will put it this way, Mr. Patman. I do not expect to be in this office when the debt is fully paid.

Senator FULBRIGHT. Mr. Chairman, will the Congressman yield? I have to go to the floor in a moment and I would like to ask one or two questions.

Representative PATMAN. I yield.

Senator FULBRIGHT. One of them is inspired by that last question.

Do you feel, Mr. Secretary, that the supply of money presently is adequate for the contemplated rate of business that you have already described?

Secretary HUPHREY. I believe it is. We are trying to keep it that way. We hope that it is kept that way, and I believe that the amount of money available today is in relation to the volume of business that is being done.

Senator FULBRIGHT. Is the amount today related to the estimated production, or volume of business—is it greater or less than it was, say, in 1937 or 1938?

Secretary HUMPHREY. Mr. Fulbright, I would have to look that up. I just cannot tell you.

Senator FULBRIGHT. We were told, if I recall correctly, that at that time there was too little money among other things. But one of the factors was that there was too little money relative to the business done, and it caused a rather sharp recession, if you recall, in I believe it was, '37, '38.

Secretary HUMPHREY. '37; the fall of '37.

Senator FULBRIGHT. I was wondering what your statistics show with regard to the present relationship between money and estimated business, or current business for that matter.

Secretary HUMPHREY. I will be glad to look it up for my own information, and I will tell you. I do not know.

Senator FULBRIGHT. One other question——

Chairman WOLCOTT. May we clarify something? I am sure the Secretary would want that.

You were referring to money in the broad sense?

Senator FULBRIGHT. Yes, money, and, I think, in circulation. It does have an influence on whether it is inflation or deflation.

Chairman WOLCOTT. Are you referring to money in circulation or money in the broad sense?

Senator FULBRIGHT. I think they have to figure it both ways that is, actually money in circulation and in the broader sense, both money and credit.

Chairman WOLCOTT. That is my point.

Senator FULBRIGHT. I think both figures should be available for the record.

Senator DOUGLAS. May I interject into the questioning of the Senator from Arkansas?

On page 30 of the Economic Indicators furnished us by the Council of Economic Advisers, the total money supply, exclusive of United States Government deposits in 1939 was given as $63.3 billion, and in

November of 1953, it was $197 billion, or a ratio of about 3.1 to 1. I think what the Senator from Arkansas is anticipating with his question is, "What about the increase in gross national product?"

Senator FULBRIGHT. That is what I meant. It is the relationship between those amounts and the gross national product.

Senator DOUGLAS. But, it is not true that the gross national product during this period is approximately quadrupled?

Senator FULBRIGHT. That is what I want to have determined from official sources. I have been told—and I do not know exactly what it is, and I would like to know what the Treasury thinks about it—that as of the present that relationship is lower than it was back in 1939, and perhaps that is a factor which certainly ought not to be overlooked.

Secretary HUMPHREY. I will check into it, Mr. Fulbright, and I will give you our views.

(The material requested follows:)

The ratio of currency and demand deposits (active money supply) to gross national product has remained practically unchanged during the last 3 years. The current ratio is very little different from the ratio in the 1937–39 period and is well above the ratio for any year in the twenties.

Today, of course, there are larger amounts of other forms of savings than there were 15 or 20 years ago. These savings—in the form of savings bonds, other securities, savings accounts, and savings and loan shares, for example—can be drawn on easily whenever people have the desire or stimulus to spend.

Ratio of demand deposits and currency [1] *to gross national product*

Calendar years:		Calendar years—Continued	
1937	0.34	1951	0.35
1938	0.35	1952	0.35
1939	0.37	1953	0.34

[1] As of June 30.

Senator FULBRIGHT. There is one other question that I wanted to ask. Perhaps it is rather broad. But I liked your initial statement with respect to the flexibility that you feel should be kept in mind at all times. In other words, you have no frozen concept of exactly what is going to happen or exactly what your policy is. But with regard to your taxes, it seems to me that your statement and that of the President have heavy emphasis upon taxes designed to increase production. I thought as a layman—and these matters are relative, of course—that our greatest problem now, for some time, is rather underconsumption. Now, I believe, from an agricultural State, I am conscious of great surpluses in agriculture, and more recently in automobiles. There seems to be an adequate, in fact overly adequate—in fact, greatly excessive—supply of these commodities that people can purchase, or at least are willing to purchase. But when it comes to taxes, I would like to feel that maybe an increase in exemptions—that is, individual exemptions—in order to generate the greater purchasing power directly in the hands of people who I assume would be more likely to use it, would be better than the emphasis upon increasing production by giving greater depreciation. I notice, for example, that in this edition of the Wall Street Journal referred to, they are now making a tool that would cost $2 million that would make automobile motor blocks, dispensing, I believe, with 75 men. They are going to make them much more rapidly and cheaper.

While that is a desirable thing, perhaps, I thought at the moment we had plenty of automobiles and that the big problem was to get somebody to buy the ones that are now being produced. I wondered what your answer was.

Secretary HUMPHREY. They are not as cheap as you would like to have them, are they?

Senator FULBRIGHT. Well, I have been offered some very great bargains. A man out at my garage offered me a Mercury the other day for, practically said, anything I am willing to offer. It was a 1953 model, and he had 150 of them. He was very anxious to sell them, apparently at anything reasonable. It was not just the price that discouraged me from buying it. I must say that particular item did not.

I wondered what you thought about that. This is a rather difficult field. My only view is that we ought at this particular time to give a greater purchasing power into the hands of the consumers rather than to encourage greater production. Is there anything to that argument?

Secretary HUMPHREY. Well, we are doing both, Mr. Fulbright.

Senator FULBRIGHT. It is a matter of emphasis, I agree with you.

Secretary HUMPHREY. Our tax program does both. In some of the provisions, like notably the depreciation provision and things of that kind, those are stimulated.

Senator FULBRIGHT. Production?

Secretary HUMPHREY. Yes, for better production; more production; more jobs.

Senator FULBRIGHT. And many things you mentioned were of that character.

Secretary HUMPHREY. In addition to that, we are cutting off about $5 billion—well, it will be between $5 billion and $6 billion—of money that is going back to the people, cash money that is going back into industry and to the people that was collected and spent by the Government last year. Now, that cash money goes to people who will have the money to spend this year for themselves that they did not have last year.

Senator FLANDERS. Mr. Chairman, when machine tools are mentioned by the Senator from the State of Arkansas, I pricked my ears up, because that was my business for 50 years. I want to say that this machine, for $2 million or $3 million that does all the work on cylinder blocks is not new. That has been going on for 10 years. It is just an expansion into new plants of a thing which began during the war with the cylinder blocks of the aviation engines, so that there is no crisis, but just a continuing situation.

May I also, having gotten hold of the microphone, which I grasp firmly, suggest that we had nearly 7 years of experience with endeavoring to solve the problem of unemployment by consumer expenditures alone, from 1933 to 1940. The volume of unemployment was not decreased thereby.

It seems to me, Mr. Chairman, and Mr. Secretary, that it is worth while trying the experience of playing both ends of this game as we are now doing, to support production and to support construction by reasonable tax means.

I am for trying the new scheme, since the old one really did not work.

Senator DOUGLAS. Mr. Chairman, since I have a microphone near me, I cannot resist the temptation to seize it, also. I would like to ask the Secretary this:

In your tax program, which is listed on pages M–16 to M–24 of the budget, you outline some 24 proposals. Now, how much in the aggregate will this come to in terms of tax reduction?

Secretary HUMPHREY. About $1.3 billion to $1.5 billion, somewhere in there.

Senator DOUGLAS. When the rebate on dividend payments fully comes, the 15 percent, how much will that amount to?

Secretary HUMPHREY. As I recall it, it starts out between $200 million and $300 million.

Senator DOUGLAS. Yes. But I mean the total.

Secretary HUMPHREY. That is the total. And then over the 4 years, it runs up until it gets to $1 billion, somewhere, $1.2 billion, to——

Senator DOUGLAS. And at the end of the fourth year, that will be the total cash reductions contemplated in your program as a whole?

Secretary HUMPHREY. It all depends on volume of activity, and everything else.

Senator DOUGLAS. I know. But what would be the general figure? Say $3 billion?

Secretary HUMPHREY. In that neighborhood; $3 billion to $4 billion.

Senator DOUGLAS. Now, may I ask——

Secretary HUMPHREY. You see, you have to take each one of these things and estimate what the volume is in order to gage it, so that your question is an almost impossible one to answer.

Senator DOUGLAS. Mr. Secretry, what I am saying is that your thinking of $1.5 billion might be true for the first year, but that it was underestimated in the later years when this dividend rebate increases. And if it is $1.5 billion the first year, and there is an increase of approximately $1 billion, from $300 million to $1.2 billion in the fourth years, that would bring the total to approximately $2.5 billion. Now, this is the point that I would like to come to. How much of this $2.5 billion is given to the lower-income groups in the first 3 or 4 years of your tax proposals, and how much is given to investment and those receiving incomes from investments in the later portion of your tax proposal?

Secretary HUMPHREY. I am afraid you are asking a question that we will have to make a lot of assumptions on to try to answer, because these things all depend. Well, for instance, if corporate dividends decline, the amount of the tax relief on dividends will be very largely reduced, so that you have to make all sorts of assumptions on what things are going to be 4 years from now.

Senator DOUGLAS. I know. But I am willing to take your assumptions. Now, here is the point. You put up at the head of your program a number of various proposals of children earning over $600, that they are not to be deducted, and there could be split incomes for heads of families in terms of dependents, that the expense of babysitters will be a proper deduction for working mothers, and extra allowance for medical expense, and so on. Those are very excellent. But how much do those come to in comparison with the allowance for accelerated depreciation and the dividend factor? The dividend factor, you say, ultimately comes to $1.2 billion. How much do you estimate on the amortization? How much reduction in its income will that be in the first 3 or 4 years?

Secretary HUMPHREY. Well, you see, you start right out, Senator, with something in excess of $3 billion that is handed back to taxpayers right off by the tax reductions.

Senator DOUGLAS. You mean, on the 1st of January?

Secretary HUMPHREY. Yes, sir. You start off with that.

Senator DOUGLAS. But remember this, Mr. Secretary, that in the lower income groups, that is cancelled by the increase in the social-security tax.

Secretary HUMPHREY. That is only at the very lowest level, and that is because——

Senator DOUGLAS. They break even——

Secretary HUMPHREY. Now, please let me answer when you ask a question.

Senator DOUGLAS. Surely.

Secretary HUMPHREY. You keep talking while I'm trying to.

Senator DOUGLAS. Surely.

Secretary HUMPHREY. It is only in the very lowest bracket that that is an offset, and that is for the purchase of something that is of value to the man who buys it.

Senator DOUGLAS. Would you like to know the precise point where they balance?

Secretary HUMPHREY. What is that?

Senator DOUGLAS. Do you know the precise points where they balance? According to my figures for a single man, the increase in social security will offset the reduction in income tax at approximately $900 a year, $872, and a man and wife at approximately $1,800 a year, a man with a wife and 2 children at $3,550. Now, the vast majority of people who receive under $3,550 a year, so that this reduction in the income tax which you turned to, and which as a matter of fact was previously ordered by a Democratic Congress, was offset for these groups by the increased social-security tax, so that the full gain of this income tax reduction goes for those above these break-even points which I have given.

Secretary HUMPHREY. The tax reductions that have been made are very much in favor of the lower brackets. The scale of rates went for the largest reductions in the lower incomes. The large percentage reductions are in the lower brackets. As the brackets increase, the tax reductions get down to small percentages, and at the top it is a very small amount. Now, in addition to that, there is the social-security-tax increase. This administration recommended that the rate increase should not be made until the time came when it was desired to substantially increase the benefits of social security. Then a program was presented for substantially increased benefits. To finance these increased benefits—the recommendation to withhold the rate increase was withdrawn. So the reason these higher rates are being paid is because the man who pays them is buying prospectively a lot more than he ever had before. He is buying something of value which has nothing to do with his income-tax reduction.

Senator DOUGLAS. Mr. Secretary, if I may continue with this previous course of reasoning, it is not true that the first 4 or 5 decreases which you propose in your program would net to those in the lower income groups a return of approximately $200 million, but that the reduction coming from accelerated depreciation and the rebate of dividends against taxes and not against incomes, that that will net something in the order of $1.2 billions, utlimately, primarily for the

Secretary HUMPHREY. I think the figure, Senator, that I have—and this is subject to correction because I haven't compiled them just for the purpose of this question—but——

Senator DOUGLAS. I see.

Secretary HUMPHREY. But we start out by giving back to the taxpayers something in excess of $3 billion. That is to individuals. Now, then, in addition to that—the $1.3 billion that this revision gives, is split about 50–50 between relief provisions and incentive provisions.

Senator DOUGLAS. I would like to point out that I think——

Secretary HUMPHREY. That is on top of the excess of $3 billion originally given.

Senator DOUGLAS. I think this is something of an overstatement, and I say this respectfully, that even for the first year, when the rebate on dividends is predicated against taxes for the subsequent years, with the increase from 5 to 10 to 15, and I believe also ultimately to 20——

Secretary HUMPHREY. No.

Senator DOUGLAS. What about the House? Did not the House put in the 20 percent?

Secretary HUMPHREY. Nothing that I have ever heard of.

Senator DOUGLAS. Well, 15. (continuing:) That that will be close to $700 million more and, of course, the overwhelming proportion of dividends are received by those in the upper income group?

Secretary HUMPHREY. I do not believe I will agree to that. Dividends more and more are being received by the people who own pensions, who have insurance, of all sorts. It is the great mass of the American people that are getting the great ownership in American industry today, and it is coming through pension funds and through insurance funds and things of that kind that are drawing tremendously and are going into equity securities.

Senator DOUGLAS. Is it the poor people who receive the dividends?

Secretary HUMPHREY. Oh, yes; indeed. They get through their——

Senator DOUGLAS. Do the poor people receive the major portion of the dividends?

Secretary HUMPHREY. They get dividends through their pension funds and through their insurance.

Senator DOUGLAS. Do they receive the major portion of the dividends?

Secretary HUMPHREY. What is that?

Senator DOUGLAS. Do the poor people receive the major portion of the dividends?

Secretary HUMPHREY. I don't know how you divide it.

Representative SIMPSON. Is it not a fact that the people who will benefit under the changes contemplated with respect to the so-called double taxation of dividends are the individuals who own stock in the Nation's enterprises?

Secretary HUMPHREY. That is right.

Representative SIMPSON. Well, studies that have been before the Committee on Ways and Means indicate that the corporate stock of the Nation is owned—64 percent of the corporate stock of the Nation is owned by people having incomes of less than $6,000 per year. The committee——

Representative PATMAN. Would you repeat that, Mr. Simpson?

Representative SIMPSON. The committee was amazed to discover that.

Representative PATMAN. That is not so.

Representative SIMPSON. And it was indicated that this relief, some of the relief contemplated, 64 percent of it would go to people with incomes of less than $6,000 per year.

Representative PATMAN. I would like to see some figures on that. It is my understanding that 4 percent of the taxpayers collect 66 percent of the corporate dividends and 92 percent of the people own no stocks at all.

Representative SIMPSON. I cannot quote the place, but there is a Treasury report issued last year which will substantiate what I state.

[Mr. Simpson later explained that the Treasury study referred to the 3,438,198 returns from taxpayers reporting dividend income in 1947. Of these 64 percent, or 2,199,720 returns, showed adjusted gross incomes of $5,000 or less.]

Representative PATMAN. I am not doubting—I do doubt, but I am not questioning—the gentleman.

Representative SIMPSON. I will get that.

Senator FULBRIGHT. Mr. Chairman, I want to complete my one other thought.

To go back to my original question—and I grant that there is no absolute dividing line—but I was under the impression that as far as plant, the investment in equipment was concerned, we are pretty well equipped. What you said about the amortization, the 5-year amortization of steel, bears that out. During these last few years, there has been an enormous investment in plant, which again seems to me would lead me to emphasize the increase in the exemptions rather than the depreciation as of this time. Granted that these change from time to time, but under present conditions, accepting your own statement, which I do with full credibility, with regard to plant investment, it does not seem to me you would get a very immediate reaction from giving still further depreciation privileges when you just stated that it has been overdone during the past few years, and that as of the present, what you said yourself would lead me to believe that the emphasis should be put on the consumption. In other words, the increase, we will say, from $600 to $700, which I understand you refused to recommend, or you rejected as an intelligent thing to do as of the moment——

Secretary HUMPHREY. I will be glad to explain——

Senator FULBRIGHT. That is what seems to me a little inconsistent in your position.

Secretary HUMPHREY. What has happened, Mr. Fulbright, is this, that with these expedited depreciations, we have had a large expenditure in many lines, particularly those lines which have to do with war-making materials.

Senator FULBRIGHT. Many others?

Secretary HUMPHREY. Those and a lot of others.

Those new facilities have the advantage of the very latest designs and latest models, and you have thereby created quite a discrepancy between the cost of production with those new facilities and with the other facilities, so that you have, just contrary to your thinking, caused a great stimulation to people who want to bring their other facilities, and who, to be competitive, must bring their older facilities up to these newer standards. So you have in this country some brandnew plants that have been built in quite large numbers. You have a lot of much older plants, and for those much older plants to continue to give the employment that they are giving to be competitive and to keep people at work, those old plants have to be rehabilitated and brought up to the standards of the new plants so that the entire production can proceed; otherwise you are having part of your industry at a great discrepancy with other parts.

Senator FULBRIGHT. But that is against the background of overproduction, it seems to me, and that is where I leave you. I mean, we cannot even consume. or are not consuming, what we already produced.

Secretary HUMPHREY. Mr. Fulbright, the goose that lays the golden egg is production, and it doesn't make much difference. If you haven't got a payroll, you haven't got consumers. Payrolls are what make consumers. Payrolls are the things that get the money out to the people, and you stop the payrolls, and you stop the consumption automatically.

Senator FULBRIGHT. I tried to say in the beginning, there is no absolute. It is purely a matter of balancing, in my opinion, as of a particular time. What you may say in a certain period, I cannot deny that there is a certain truth in it. But under existing conditions, I think it is a question of evaluating which of these two courses is the stronger. And as of the moment, in all deference, it seems to me that we are producing more than we could consume, and I would be looking for means to increase—immediately, I am talking about—the consumption, to encourage the people to purchase some of these tremendous surpluses that we have. That is all. We don't differ on that.

Secretary HUMPHREY. No. And I just said that we gave over $3 billion back to individuals, plus half of the tax reform to individuals, and the other half of the tax reform is for incentive things, so that the great bulk of the money of tax relief has gone to individuals for stimulation of purchasing power, and relatively smaller part has gone for incentive for the goose that lays the golden egg. A dollar of capital investment has a lot of leverage in it. It not only stimulates business at the time the investment is made; it also produces new jobs and additional payrolls for years to come.

Senator FULBRIGHT. I do not want to repeat what you have developed. All I can say is that purely as a matter of degree, it seems to me that there should be a little greater emphasis on those who can consume what we are already able to produce. That is the only thing.

Secretary HUMPHREY. That is the difference that either one of us may be wrong in, and I do not know whether you are right or we are right.

Senator FULBRIGHT. It is an evaluation.

Secretary HUMPHREY. Time will tell.

Senator FULBRIGHT. It is a very vague concept. I would say that you have maybe emphasized production a little more as of the present time. That is all.

Representative BOLLING. Mr. Chairman, I have a few questions.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. Mr. Secretary, how do you characterize the present economic situation?

Secretary HUMPHREY. I have used the term that has been criticized by Mr. Douglas, or by Senator Douglas, although I really do not think we are talking about very much. I had the pleasure of hearing him this morning, and really I could agree with a great deal of what he said, whether you used the word "recession" or the words "rolling adjustment," which is the thing that I have said. We certainly haven't got a recession in every line of business. I do not mean, Senator, that part of what you said was not subject to——

Senator DOUGLAS. I was just talking to my friend from Ohio.

Secretary HUMPHREY. I still want to say that part of it was subject to a little misinterpretation, I thought. But by and large, whether you use the word "recession" or whether you use "rolling adjustment," or what is the proper term, I do not know. It is idle to say that employment is as high as it was 6 months ago. It is not. It is idle to say that buying is at exactly the same level. It is not. But the buying is only down so far; the retail buying is only down a very little. There has been a definite accumulation of inventories. We know that. In many cases, already those inventories, those excessive inventories, are beginning to be taken away. Now, the reason I use "rolling adjustment" is this. There are some industries that are operating at exactly the same level they did a year ago. There are others that are down a little. There are others that are down more. And they are in different places and different geographical locations.

Now, if this adjustment takes place, as it appears to be doing, with readjustment in industry at one time and another industry at another time and one place at one time and another place at another time, then we haven't anything that is very disturbing. If that does not occur, and if it becomes an across-the-board difficulty all the way across the board, then it becomes more disturbing.

Now, what the Senator said this morning is exactly what I believe, and I do not know that I could quote him. He was asked, as I recall it, Should the Government do something that it is not doing right now, and if so, what?

He said, "I think the American people—it is up to the American people now to do their part."

I think that the American people should be encouraged to buy, that they go ahead and buy, and that they go ahead and give more value—the producers give more value—for the goods to induce the consumers to buy, and that the consumers come into the market and buy. And if the consumers continue to buy, even at the rate they are now buying, if they are not scared out by something, if they continue to buy at the rate they are now buying, this thing will level out, and we will be on our way again with the things that the Government has already done and with the climate that has already been provided.

I believe and hope that this great stimulant of this tax return that is being returned, with the ample credit, with all the things that now obtain, will be sufficient so that the consumers will continue, and if they do, this thing will move on off in good shape.

Now, which it is going to do, which way it will go, I do not know, and I am sure nobody else knows.

Representative BOLLING. Mr. Secretary, I think that it would be easier in terms of the committee's time if I inserted this in the record, Mr. Chairman. It is in a magazine of very wide circulation. But if the chairman prefers, I will read it. The Plus and Minus page of the February 5 issue of the U. S. News and World Report, as I read it, is remarkably minus and very little plus. It covers steel operations, auto output, television set production, factory output generally, household appliances, carloadings, unemployment, interest rates, bank credits, installment credit, shrinkage of credit, drop in credit sales, the burden of installment debt, and department-store sales, which as I see it is the only one that has even held even. But it seems to me that there is a strong indication that it is perhaps out of the rolling-adjustment field and into the broad field.

Secretary HUMPHREY. The only thing you have to keep in mind with respect to that is this. I do not think, and I am sure that none of you think, that in order to have a good, sound economy we have to set new records every year. 1953 was a record year. We can have fine business. We can have fine conditions in America and still have everything minus of 1953.

I would not object if we had the second best year in our history, and I do not think you would, and everything can be minus, and we still have the second best year in our history as compared with 1953. So I do not believe that we need to get too alarmed at this time just because we are not making new records all along the line.

Chairman WOLCOTT. Suppose you yield to me to clear up my own thinking in this.

Representative BOLLING. I yield.

Chairman WOLCOTT. Did we not have a right to expect that when we stopped inflation, we might have an adjustment period?

Secretary HUMPHREY. I think, Mr. Chairman, it was inevitable. It is inevitable. You cannot swing from one side to another and not have some readjustment.

Chairman WOLCOTT. What is happening now is no more than we have had a right to expect, and which we should have expected?

Secretary HUMPHREY. If it is no more than we have now, I think it will be a very fine situation.

Representative BENDER. And without a shooting war.

Representative BOLLING. Mr. Secretary, if, however, we had a second best year this year and continued at that same level for a considerable period of time, we could, by population increases, go on and work ourselves into very substantial difficulties.

Secretary HUMPHREY. I think the American economy must be an expanding economy. I think it is bound to be. I think with the spirit of the American people, unless the Government does something to interfere terribly or make some terribly bad mistake, it seems to me that over a period of 10 or 15 or 20 years, we are just bound to move ahead.

Representative BOLLING. Mr. Chairman, I would like to be sure that I have permission to insert this full table without objection.

Chairman WOLCOTT. Without objection, it may be put in the record. I think the Secretary has been asked some questions with respect to that, and there should be an explanation that they are not Treasury figures.

Representative BOLLING. Certainly.

Chairman WOLCOTT. They are figures which have been accumulated by——

Representative BOLLING. It should have adequate explanation.

Chairman WOLCOTT (continuing). By the U. S. News.

Representative BOLLING. Yes, sir; February 5, of the U. S. News. I have a few more questions.

Chairman WOLCOTT. Without objection, it may be inserted.

Representative BOLLING. Thank you.

(The document referred to follows:)

[U. S. News & World Report, February 5, 1954]

PLUS AND MINUS

LATEST INDICATORS OF BUSINESS ACTIVITY

The slow decline in business activity is still under way, accompanied by a further rise of unemployment and decline of interest rates.

Steel operations were scheduled at 73.8 percent of capacity in the week ended January 30, against 74.1 the previous week. Tonnage was 21 percent below a year ago. The price of steel scrap dropped to a new low as steel mills stayed out of the market.

Auto output, after spurting in the first 3 weeks of January, began to falter as major producers cut back their operations. A large flow of new production from factory to consumer is impeded by heavy dealer stock of new and used cars.

Television-set production fell to 95,000 in the week ended January 15, about half the rate of a year ago. The industry is still trying to digest last year's large accumulation of inventory.

Factory output, at 130 on the indicator, is about 7 percent below last year's peak.

Household-appliance producers find their inventories still a problem as shipments drop faster than production. Gas-range shipments fell to 132,400 in December, a quarter below a year earlier. Washing-machine shipments fell to 200,000 down a third from a year earlier. Washing-machine stocks rose to 520,000 on January 1, more than double January 1, 1952, or 1953.

Carloadings of manufactured goods ran 14 percent below a year ago in the week ended January 23.

Unemployment is still rising. Layoffs, measured by new claims for unemployment compensation, are well above the same period in other post-war years. Insured unemployment, now more than 2 million, is rising at a time when it should decline seasonally. By late January, unemployment apparently was about 2.5 million.

Interest rates have dropped further. The yield on the latest issue of Treasury bills was less than 1 percent, lowest since 1949. Treasury 3¼ percent bonds, offered last year at par, rose almost to 107, then dipped as the Treasury announced new financing. Yields on Government, corporate and municipal bonds have sunk to the lowest in a year or more.

Bank credit is contracting sharply. Outstanding loans to business and agriculture fell 702 millions at weekly reporting banks from December 30 to January 20. Loans to consumers fell 84 millions.

Installment credit, vital to the sale of consumer hard goods, is flowing into use at a slower rate, as the top chart shows. Merchants and lenders extended new credit at a rate of $29.4 billion per year in November, 10 percent below last March.

Shrinkage of credit extended on installment is due to the less-urgent need of consumers for hard goods and a decline in the ratio of credit sales to total sales—also lower prices on some items, chiefly used autos.

The drop in credit sales grows out of the economic forces now at work. Overtime pay has all but disappeared in many industries. Unemployment is up. Many working wives and older men have lost their jobs and withdrawn from the labor market. Consumers, merchants and bankers, all are cautious.

The burden of installment debt is heavier now that incomes are down. Loan repayments, as the chart shows, have almost overtaken credit granted. If sales of hard goods drop 5 to 10 percent this year, as many expect, an excess of loan repayments over new credit will take dollars out of the stream of income and spending and reduce outstanding installment debt.

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Department-store sales in January dropped about 2 percent from December, equaled January 1953. Soft goods sales were up, hard goods down.

Adjustments in business activity so far give no sign of spiraling into a rapid decline in activity. But there is little evidence yet that the present decline has run its full course.

SPEAKER MARTIN'S IDEA: SHARP CUTS IN EXCISES

These proposals, it's agreed in Congress, will be hard to stop this year.

Mr. Martin's idea is to reduce to 10 percent all excise rates now above that level. Taxes on liquor, tobacco and gasoline would be excepted. The table on this page shows what the action would mean to consumers in terms of prices.

Most cosmetics and toilet preparations, for example, are taxed at 20 percent. That's a dime on a 50-cent can of talcum. The Speaker would trim that to 10 percent—a nickel.

Many other consumer products would get this same treatment. Furs, jewelry, luggage, handbags, theater admissions, all carry a 20 percent rate now. So also do electric-light bulbs, safe-deposit boxes, most cameras, film and other photo equipment. Club initiation fees and dues, a few other items are taxed at 20 percent. Tax on all these would be halved by the plan.

Long-distance toll charges would get even sharper tax cuts. Rate on those—now 25 percent—also would go to 10.

Some other products and services—now taxed at 11 to 15 percent—would get smaller tax cuts.

Still other items would be unaffected—they already are taxed at 10 percent or less. That goes for automobiles, radios, television sets, most appliances, and a long list of other products.

What proposed cuts in excises mean

	Price at present excise rate	Probable price with excise cut
Fur coat	$480.00	$440.00
Diamond ring	360.00	330.00
Suitcase	48 00	44.00
Perfume	6.00	5.50
Theater admission	1.20	1.10
Club dues	120.00	110 00
Local telephone bill	11.50	11.00
Long-distance call	5.00	4.40
Telegram	2.30	2.20
Transportation fare	46 00	44.00
Electric-light bulb	.25	.24
Camera	100.00	94.00
Fountain pen	15.00	14.50
Cigarette lighter	10 00	9 70
Golf clubs, set	75.00	72.50

Representative BOLLING. Mr. Secretary, do you believe that the economy could support additional expenditures of defense in the order of, first, $10 billion; secondly, $20 billion; and $30 billion?

Secretary HUMPHREY. Over how long a period, Mr. Bolling?

Representative BOLLING. Over a period of, let us say 10 years.

Secretary HUMPHREY. It would get progressively worse, of course. And to say that we could put $30 billion a year on our present expenditures for defense for a period of 10 years, I think it would lead us into lots of trouble.

Representative BOLLING. Now, that is taking the highest possible.

Secretary HUMPHREY. Now, from there on, you come down, and which straw breaks the camel's back, I cannot tell you.

Representative BOLLING. But you would feel that the economy at the present could support about the present level of expenditures?

Secretary HUMPHREY. I hope that we will be able to get all the security we need, all the security that is required in the world as it develops, for less money than we are now spending. I think that should be our objective.

Representative BOLLING. That would be our ideal objective?

Secetary HUMPHREY. That is right.

Representative BOLLING. That brings me to another approach. How important do you feel budgetary considerations should be in arriving at the level of defense expenditures?

Secretary HUMPHREY. Viewed over a long period of time, I think they are of very considerable importance, because I think we can lose in America economically just as badly as we can lose militarily. I think that what we are seeking to obtain in America, our ideal in America, and what we are trying to defend ourselves for, is not just our lives; it is our way of life. And I think that if we lose our way of life—and that, we can lose economically—we will be just as badly off as we would be to lose militarily.

Representative BOLLING. Now, Mr. Secretary, do you believe that the economy in this year and the next year could stand an increase in defense expenditures of $5 billion a year?

Secretary HUMPHREY. I do not believe anybody in the world can—I think it is perfectly obvious that if this country for some reason, for this year or next year, had to stand an extra $5 billion or $10 billion, I do not think there is any question but what we could do it. I do not think it would be a good thing to do it, and I do not think we ought to do it unless it is absolutely required for our security. And I would hope that we could devise plans for our security that would be fully effective without doing it.

Representative BOLLING. What about $20 billion for the next couple of years?

Secretary HUMPHREY. I think for a year—I do not know how much this country can owe, Mr. Bolling. I do not know what the limit of the credit of America is. I know there is a limit to America's credit, but what it is, I cannot tell you.

Representative PATMAN. Mr. Chairman, if you will bear with me just a moment, I will get through.

Chairman WOLCOTT. You have had the floor right along, Mr. Patman.

Representative PATMAN. Yes, sir, I know I have, and I have been, of course, glad to yield to these gentlemen.

Representative BENDER. Can we have an opportunity to make a Republican speech over here, in view of all these Democratic speeches?

Chairman WOLCOTT. I assure you that I shall give all members the opportunity to make any kind of remarks that they care to make that are political, but I hope that they will be economical.

Representative PATMAN. Mr. Chairman, I ask unanimous consent to propound questions in writing to the Secretary of the Treasury, and that he be allowed to insert the answers in this record, and that will shorten it some, by asking him the questions, if that is satisfactory with him.

Is that satisfactory with you, Mr. Secretary?

Secretary HUMPHREY. We will be glad to give any information about the Treasury that we can give you under any circumstances.

Chairman WOLCOTT. Without objection, Mr. Patman, any germane questions that you might propound to the Secretary in writing, with his answers, will be inserted in the record.

Representative PATMAN. Number one, I want the average amount each month that has been on deposit in the banks in the last 2 years ending February 1, 1954, the average amount in the banks. You know what I am talking about?

Secretary HUMPHREY. Yes.

The average balances in Treasury tax and loan accounts at commercial banks during the last 2 years were as follows: February 1952, $2,821 million; March, $3,500 million; April, $4,022 million; May, $3,716 million; June, $3,767 million; July, $7,240 million; August, $5,619 million; September, $4,621 million; October, $4,992 million; November, $4,630 million; December, $4,393 million; January 1953, $3,425 million; February, $4,067 million; March, $3,808 million; April, $3,281 million; May, $2,203 million; June, $2,105 million; July, $4,944 million; August, $6,095 million; September, $4,957 million; October, $3,698 million; November, $4,268 million; December, $3,223 million; January 1954, $2,536 million.

In the calendar year 1953 these balances averaged $3,839 million, as compared with an average of $4,268 million in 1952. Since average monthly budget expenditures rose from $5,947 million in 1952 to $6,135 million in 1953, the ratio of average balance to average monthly expenditures fell from 72 percent to 63 percent.

These average balances in Treasury tax and loan accounts with banks are not indicative of the problem faced by the Treasury under the present debt limit. When there was a wider leeway under the debt limit, as in the calendar year 1952, it was possible at times to run on lower cash balances, the reason being that any sudden need for cash could be taken care of by borrowing; also the Treasury had a more or less current flow of receipts from the sale of Treasury savings notes (discontinued October 1953). Under present conditions, with the Treasury's cash balance at a very low level, the Treasury would be unable to meet a real emergency because of the restrictions of the present debt limit. It should be noted that in December 1952 the average balance on deposit in Treasury tax and loan accounts was $4,393 million, as compared with $3,223 million in December 1953. On the other hand, the Treasury had a debt leeway of $8,179 million on December 31, 1952, as compared with only $329 million on December 31, 1953. In other words, while the Treasury was operating on average bank balances of $1,170 million less in December 1953 than in December 1952, it had $7,850 million less borrowing authority. In January 1954 the situation was even worse, since the average balances on deposit in banks amounted to $2,536 million and the debt leeway was down as low as $225 million on January 19.

Representative PATMAN. And the next is the things that you have had to do that you would not have done if the national debt limit had been raised last year.

Secretary HUMPHREY. And the things we might have done if we had been free to do them?

Representative PATMAN. That is right.

Secretary HUMPHREY. How we have been restricted?

Representative PATMAN. Yes; the things that you have done that you would not have done, and the things that you could have done that you were unable to do.

Secretary HUMPHREY. Or put it, that we might have tried to do.

Representative PATMAN. That is right.

Secretary HUMPHREY. In order to operate within the existing statutory debt limit, it has been necessary for the Treasury to draw down its balances to unusually low levels, there being times when the cash balance was equivalent to less than 2 weeks' expenditures.

In addition, arrangements were made with the Commodity Credit Corporation to procure wider participation by banks in the financing of crop support loans thereby reducing the Government's outlay because of these loans. This is merely a postponement of a financing problem, however, since most of the loans may have to be picked up by the Treasury when the notes mature about the first of August.

About $500 million of free gold was used to retire Federal Reserve holdings of debt prior to maturity, reducing the Treasury's free gold, which typically has been held in reserve in case of an emergency, to approximately $490 million.

The administration has reduced expenditures about $1.2 billion (other than the effect of the special CCC financing) compared with estimates available last summer when debt limit legislation was requested. This has helped the Treasury get by under the present debt limit; these reductions, however, would have been made without regard to the restrictions imposed by the statutory debt limit.

While thus far the Treasury has been able to operate within the present debt limit and may be able to continue to do so for the next few months, the combined effect of a low cash balance and narrow leeway under the debt limit, results in a situation where the Treasury is not able to time its financing operations in the best interests of the Government. The Treasury had to discontinue sales of savings notes in October 1953, because an unpredictable increase in sales could have put that debt over the $275 billion limit. The Treasury had to limit its November 1953, cash offering to a smaller amount than it might have under normal circumstances in such a favorable market. Furthermore, the debt ceiling pressure has precluded current active consideration of a long-term bond until such time as the debt leeway widens.

Representative PATMAN. Now, then, Mr. Chairman, I want to make a request that we invite the entire Open Market Committee before this committee. Tomorraw, I understand from the agenda, we have Mr. Martin. Of course, Mr. Martin is the Chairman of the Federal Reserve Board. But Mr. Martin is just the head of one group that is part of the Open Market Committee. The Open Market Committee, under the laws passed by Congress, has tremendous power. It is composed of the board members of the Federal Reserve System, and 5 presidents of Federal Reserve banks. I believe that this is worthy of the serious consideration by the chairman and should be granted for several reasons.

No. 1, the five Federal Reserve Bank Presidents that are on this committee are selected by the private banks. They are not directly under obligation to the Government at all. They are constituents, we can almost say, of the private bankers in the district where they operate. There are five of them. To have just the Chairman of the Federal Reserve Board here, I think is incomplete. I do not think that he is in a position to answer. Particularly is that true now when the Board has only six members.

Chairman WOLCOTT. Mr. Patman, I wonder if you would withhold your request until you have heard Mr. Martin tomorrow, and ask the chairman of the committee to give further consideration to your request, following that, if you still think it is necessary.

Representative PATMAN. I shall be very glad to yield to the request of the chairman, but I know now, Mr. Chairman, that he cannot speak for the five Presidents of the Federal Reserve Banks. He does not have the power to do so. And since we know that he does not have this power, I would just suggest that it might be a fine thing to have all the members of the Board of Governors and the five Presidents of the bank here for a panel discussion.

Chairman WOLCOTT. Would it not be better if we delayed any decision in that matter until after he testifies?

Representative PATMAN. Certainly. Thank you very much, Mr. Chairman. I will propound the other questions to him in writing.

(The written questions and answers referred to follow:)

QUESTIONS SUBMITTED BY WRIGHT PATMAN, MEMBER OF CONGRESS, TO SECRETARY OF THE TREASURY, MR. HUMPHREY, ON FEBRUARY 2, 1954, THE QUESTIONS AND ANSWERS TO BE INSERTED IN THE HEARINGS BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, FEBRUARY 2, 1954

1. What is the Secretary's view as to the Government's responsibility to keep the growth of the money supply adequate to meet both private and public credit requirements?

I agree with the Federal Reserve's policy which aims to provide adequate—but not excessive—bank credit to meet the needs of the economy. The Treasury works very closely with the Federal Reserve to make sure that our debt-management operations are consistent with their monetary and credit actions.

2. Does the Secretary believe that the money supply was being increased in line with such requirements in the first half of 1953?

Money supply declined in the first half of 1953 by slightly less than the customary seasonal amount. It was kept down partly as the result of the appropriate exercise of mild credit restraint by the Federal Reserve.

For the year as a whole, privately held money supply (including time deposits) increased \$6½ billion, or a little over 3 percent. The active private money supply—demand deposits adjusted and currency in circulation—increased by \$2.1 billion, or about 1½ percent. Turnover of demand deposits increased somewhat during the year, indicating better utilization of our money supply.

3. Does the Secretary believe that the Treasury, unaided by the Federal Reserve, should scramble with private borrowers for the limited supply of funds?

The Treasury does its borrowing in the market at prevailing rates of interest. It will continue its present policy of exerting no pressure on the Federal Reserve for support of Government securities.

4. The Treasury announces frequently that it consults with bankers, life insurance and other lender representatives about the terms of prospective Treasury issues. Mr. Burgess in a letter to Secretary Humphrey stated: "Moreover to supplement our own analysis the Treasury and representatives of important investor groups meet on an informal round-table basis whenever the situation appears to call for it, in order to exchange views on matters of mutual interest and concern * * *

"I might add that a number of conferences with leading investor groups * * * were held in the period preceding the offering of the 3¼-percent bonds and the opinions and suggestions received by the Treasury in the course of these consultations were carefully weighed * * *."

Who else did the Treasury consult with prior to its decision to issue the 3¼s?

5. Does the Treasury frequently seek out representatives of labor, agriculture, or small business "in order to exchange views on matters of mutual interest and concern"? Did they do so prior to the issuance of the 3¼s?

6. Does the Treasury believe that representatives of the general interest should be given a hearing in the making of new Treasury debt-management policies?

Questions 4, 5, and 6 may be answered together.

The consulting practices now being followed by the Treasury are those which have been in effect for many years in the Department, and were described in the Treasury answers to questions the Joint Economic Committee asked in both of its inquiries into debt management and monetary policies a few years ago.

We have held meetings with representatives of a number of important investor groups prior to each major financing, including meetings in the spring of 1953 before the announcement of the 3¼ percent bond. In addition, the Treasury consults very frequently—often, every day—with representatives of the Federal Reserve System. By practice built up over the years, as well as by the provisions contained in Federal Reserve legislation, the System keeps fully informed at all times on local as well as national trends. For these reasons a broad knowledge of economic conditions affecting the general interest is available through the Federal Reserve System in its consultations with us.

We also talk over our general problems with representatives of labor, agriculture, and other groups from time to time. The Treasury's door is always open to those who wish to present their views or who are merely seeking information. We find these informal meetings and conferences very helpful. There were a large number of them during early 1953, preceding the announcement of the 3¼ percent bond offering, in addition to the more formal meetings with consulting groups.

7. The Secretary has expressed the view many times that our debt is inflationary because too much of it is in short-term issues, and too large a proportion is bank held.

Will the Secretary place in the record the maturity distribution of the marketable public debt as of January 1, 1953, and January 1, 1954? Also the total amount of the marketable debt held by the commercial banks on those dates as well as the proportion that their holdings constituted of the total marketable debt.

The distribution requested is as follows:

[In billions of dollars]

	Jan. 1, 1953	Jan. 1, 1954
Securities maturing		
Within 1 year	57.7	[1] 73.9
1 to 5 years	40.6	33.2
5 to 20 years	50.3	45 9
Over 20 years		1.6
Total	148 6	154.6

[1] The $74 billion figure on securities maturing within 1 year, incidentally, would have been over $83 billion if the practice had been followed in 1953 of refunding all maturities into 1-year obligations. The mere passage of time, of course, acts to shorten the debt, so that a substantial amount of debt lengthening must take place each year just to keep even.

Commercial banks held 39 percent of the marketable debt at the end of the year ($61 billion) as against 41 percent at the beginning of the year ($60.7 billion).

NOTE.—Partially tax-exempt bonds are classified to first call date

8. Did the total amount of bank-held debt increase in the last half of 1953?

Banks (not including Federal Reserve banks) added about a quarter of a billion dollars to their holdings of Government securities during the calendar year 1953, out of a total increase in the public debt of $7¾ billion during the year. In the last half of 1953 alone (when the big increase in the debt occurred) bank holdings rose by approximately $5 billion.

9. Was the course of economic activity in the last 6 months of 1953 of an inflationary or deflationary character?

During the last 6 months of 1953 the economy underwent some contraction as inventories were adjusted. Other segments of the economy continued at very high levels, however, so I wouldn't say either inflationary or deflationary forces were dominant.

10. Does the Secretary believe that Government holdings by commercial banks increase or decrease—or have no effect at all—on the ability of banks to withstand heavy withdrawals?

11. Along the same lines, what would be the effect on a bank's liquidity if it shifted to long-terms in conjunction with a policy of flexible bond prices?

12. Would a unit bank fully invested in local loans suffer the disadvantage of concentrating its risks in a single area, and would its borrowers be unduly restricted in their need for funds, as the result of a policy of reducing total bank holdings of Government securities?

Would not a unit bank find that holding Governments, which have a national rather than a local market in contrast to its private loans, will enable it to adjust its investment position to the varying needs that arise from either fluctuations in its deposits or from the borrowing needs of its customers?

13. What would be the effect of liquidation of commercial bank portfolios of Government securities without replacement by private loans and investments?

14. What distinction, if any, is there in the quality of assets of a bank, that holds mostly Government securities and a bank that holds mostly private bonds and notes? What is the comparative liquidity position of the two banks? How would the banks be affected by changes in the level of business activity? (a) A sudden downturn? (b) A sudden expansion of business activity?

15. Does a policy such as the Treasury advocates—flexible bond prices and shifting bonds away from banks—discriminate against unit banks and favor branch banks?

I gather from questions 10 through 15 that you may be concerned that the supply of Government securities and their distribution between short, medium, and long-term may be changed by future Treasury financing in a way that would hamper bankers in maintaining adequate liquidity and in conducting their operations successfully.

I can see no situation arising in which a banker would find the supply of Government securities too limited to permit a flexible policy with respect to his Government portfolios; nor do I think Treasury debt management policies favor branch as against unit banks. The Treasury offers alternative investment opportunities to all. It does not tell banks what to buy.

The answers to the questions in this group on comparative liquidity positions depend heavily on individual circumstances surrounding the situations which you outline. The Federal Reserve System, together with Federal Deposit Insurance and the supervisory and other banking legislation of the Federal Government and of the States, provide the banking system with a strong set of checks and balances, including certain safeguards in case of heavy withdrawals. Within this framework, adjustment of portfolios and the provision of adequate banking service must always depend largely on the judgment and enterprise of the individual banker under varying circumstances.

16. Does the Treasury agree with this statement: "The Treasury fostered a rise in interest rates first by promising that long-term bonds would be issued, and then by actually offering a 3¼ percent issue."

No; that borrowing was done at the rate set by market forces which reflected a heavy demand for credit. I have continued to state publicly since then that further intermediate and long-term issues will be sold at appropriate times and in 5 of our 9 financing operations last year we stretched out at least part of the debt into longer-term maturities. Interest rates are lower now than they were a year ago.

17. The Secretary has said that the Treasury does not set interest rates, that it merely takes the rate as given by actual market conditions.

Does the Treasury feel now as it did in April that it correctly priced the 30-year bond issue at 3.25 percent?

How does the Secretary account for the premium of 6 points (the 3¼'s are selling at 106 giving an effective yield of about 3 perecnt) occurring in such a short span of time after the bond issue?

Did the Treasury take into account the prospective easing in demand in the second half—as most businesses apparently did—and the resultant decline in rates, before they decided to issue the 3¼'s?

We feel now, as we did last April, that the 3¼ percent bond was correctly priced. The prices at which this and other bonds are now selling in the market reflect the easing of interest rates which has occurred since early June 1953 under a somewhat less active demand for money and the Federal Reserve's credit policy.

At the time the decision was made to issue the 3¼'s, the country was having one of the greatest booms America had ever known. While there had been declines in certain agricultural prices, and here and there other weak spots in the economy, the production index was making new high peacetime records; national income was steadily climbing; there was full and overtime employment; private bank credit was still rising; corporate and municipal bond flotations were at new highs; heavy deficit financing faced us; and direct controls were being lifted.

18. Does the Secretary think that postponement of the bond issue until fall might have avoided the unwise and unnecessary rise in interest rates and the cost of servicing the public debt?

I do not believe that the issue last spring of a 30-year 3¼-percent bond was unwise or unnecessary. New money had to be raised in May to meet the Treasury's financing needs. We could have borrowed it all from the banks on short term at fairly low rates and increased the money supply and run the risk of further inflation. Instead we took the opportunity—and very properly so, in my opinion—to extend debt maturities in the hands of real savers.

19. The Secretary has said that a rise in interest rates was needed to encourage more saving. How does the Secretary account for the fact that the rate of liquid savings fell after the second quarter and in the third quarter of 1953 was $2-billion less than in the third quarter of 1952?

These quarterly comparisons are not always meaningful. However, I might point out that, even with the figures cited, the decline from third quarter 1952 to third quarter 1953 was virtually all in currency and demand deposits, where no interest is involved.

I am convinced that a fair rate of interest is essential in encouraging savings over the long run. The rate of savings depends on many factors other than interest rates, of course.

20. What is the Treasury's view on this statement? The aim of maximum employment production and purchasing power should be achieved within the framework of a relatively stable price level?

I agree with this statement.

21. What will be the additional cost of servicing the public debt if holders of securities eligible to be exchanged for the new 2½'s elect to exchange for 2½'s?

Preliminary results on the current financing indicate that exchanges into the new 2½-percent bond issue will total $11 billion, with close to $7 billion going into the 1⅝-percent certificate. The net effect of this operation is to add approximately $35 million to annual Treasury interest cost. If interest cost were the only concern, the entire financing could have been done at a lower rate by issuing short-term securities. The more important consideration, however, is the benefit of an improved debt structure.

22. Do you consider the proposed refinancing deflationary or inflationary?

(*a*) What has been its effect on Government bond prices?

(*b*) If all the eligible issues are converted into the new bonds will this result in a more liquid or less liquid position on the part of the investors who acquired the new issues?

(*c*) If the result is that there is a shift from more to less liquidity, will this not affect the prospective supply of credit in relation to demand for credit adversely?

(*d*) Under such a situation would it not be likely that a recovery in business activity would result in a quicker and sharper interest rate response than might otherwise take place?

(*e*) On the assumption that the volume of investment is to some degree affected by the relation of interest rates and expected returns over cost, would not such a quicker and sharper response of interest rates in the early stages of business recovery serve to dampen the recovery movement?

The current refinancing is neither deflationary nor inflationary. Its object is a better distribution of the debt. It was well received in the market. Prices of some outstanding securities declined by about half a point, but most of that early decline has now been recovered. Since it is a refunding operation it would not affect the supply of credit in the economy perceptibly. I don't see that the new issue would necessarily affect investor liquidity; nor would its existence discourage any desirable bank credit expansion as long as Federal Reserve policy assures the availability of ample credit.

23. Treasury spokesmen have been quoted as saying that there will be a long-term bond offering for cash next fall. Does not this refinancing and the promise of added supplies of long terms weaken the market price of outstanding governments and consequently will it not raise the market rate of interest on long-term issues?

Is this not the same procedure that was used last year prior to the issue of the 3¼'s and then the excuse was given that this was the market rate, the only rate at which the Treasury could expect to borrow long-term money?

Our financing announcement January 27 stated that we were considering a long-term bond later on. That announcement had only a very minor market effect. The long-term market is strong and Victory 2½'s are selling to yield 2⅝ percent—no higher than in the summer of 1951 and more than ½ percent under the peak yields 8 months ago. As in the case of the 3¼'s, when the Treasury decides that a long-term issue is appropriate, it will be offered at terms which are acceptable to the market.

24. Does the Secretary feel now as he did last spring that interest rates are still low compared with similar periods of prosperity in the past? If not—does this mean that we are less prosperous today than we were last spring?

Even at their peak last year, interest rates were well below the levels that characterized the 1920's and earlier prosperous periods in our history, and they are still low in historical perspective. They have appeared high only in comparison with the rates established in the depression period of the thirties and reflected later in the fixed pattern of rates used in World War II financing and carried over into the postwar period.

25. How does the Secretary feel about this statement: "In the more competitive economy that looms ahead, interest rates should be generally low and credit readily available."

Adequate credit to meet the economy's needs should be readily available, of course, and it is the job of the Federal Reserve to do whatever it can to insure it. Just what that does to interest rates depends on the demand and supply factors in the money market at any given time.

26. The Treasury has stated that we have a flexible interest rate policy. Would the Treasury comment on the fact that the average interest rate on short-term bank loans to business rose in the second half of 1953 although the volume of bank loans to business (net) declined?

The figures in the Economic Report do not indicate any net decline in bank loans to business in the second half of 1953; also the average rate on short-term bank loans was practically unchanged. So I do not think much of a point can be made that they are going in opposite directions. It is true, of course, that other rates have responded more quickly to the eased credit situation. The rate on 4- to 6-month prime commercial paper declined substantially during the second half of the year, as did rates on municipal and corporate bonds.

27. What consideration if any has the Treasury given to the effects on income distribution of a flexible interest rate policy?

(*a*) To what extent if any did the policy of higher interest rates influence shift in distributive shares that took place in the latter part of 1953?

(*b*) How does the Treasury explain the shift in income distribution since midyear?

Percentage distribution of personal income, second quarter–fourth quarter, 1953

	Total	Labor income	Transfers	Proprietors	Investors	Dividends	Interest
2d quarter	100 0	70 1	4.7	13.7	11.4	3.3	4.5
3d quarter	100 0	70 4	4.7	13 4	11.6	3.3	4.5
4th quarter	100.0	69 7	4.9	13.5	11.8	3.4	4.6

(*c*) Does the declining share of labor and independent proprietors (farm and nonfarm) in personal income and the rising share of investors income under the influence of the decline in activity in the second half, reinforce or weaken the prospect of an increase in consumer demand?

Shifts in percentages like these from quarter to quarter are difficult to interpret and it would be premature to conclude that an important trend had developed. As soon as the current inventory adjustment is cleared up, I think it is likely that concern as to the decline in labor and proprietor's income will disappear. It should also be noted that labor income accounted for a larger share of personal income in 1953 than in any other recent year.

28. What is the Treasury's view on the adequacy of current financial provision by business for replacement of plant and equipment?

(*a*) Do the present tax laws provide adequate or inadequate allowance for tax-free provision of income for future replacement of new plant and equipment expenditures being made at present?

(*b*) Has the tax provision up till now made for an inadequate provision by business for replacement of plant and equipment, with the result that plant and equipment may be obsolete and costs of production higher than they would otherwise be?

(*c*) If a revision of existing tax regulations permitted a more rapid writeoff of new plant and equipment in the early life of the assets, would this increase or decrease after tax rate of return over cost of new capital?

(*d*) What effect, if any, would this have on interest rates? What effect, if any, would this have on dividend rates and stock prices?

(*e*) On balance would the effect be to increase the rate of return to investors?

(*f*) What would the effect be on industrial commodity prices? Is amortization of fixed capital an expense that is included in calculating cost of production? Would not the proposal stimulate more rapid writeoff of new investment and therefore initially at least cause a rise in prices?

(*g*) What would the effect be on the availability of new investment outlets for personal savings?

There are many situations where available financing, especially equity financing, is not adequate for desirable replacements of plant and equipment.

(*a*) The tax laws provide adequate long-run allowances but they are inadequate by not permitting realistic higher depreciation in the early years of use of plant and equipment.

(*b*) Yes.

(*c*) A more rapid writeoff of new plant and equipment in the early years of life would merely shift the timing of depreciation deductions. It would have no direct effect on the rate of return after tax over the entire life of a piece of property.

(*d*) and (*e*) There would be no direct effect on dividend rates, stock prices, and the return to investors, except those associated with a healthier, stronger economy.

(*f*) Higher early depreciation would be more or less matched by more efficient equipment and higher total production and activity. There is no basis for a prediction of the net effect on prices.

(*g*) More rapid depreciation would increase investment and hence investment outlets.

29. How much idle and unused gold is there in the United States Treasury at this time that could be used by the Treasury?

There is now approximately half a billion dollars of gold in the Treasury general fund.

30. How could this gold be used to pay bills or debts of the Government without obligating the Government to pay interest on it?

One way it can be used is to retire Government securities held by the Federal Reserve System. The Treasury used half a billion dollars of gold in the Treasury general fund this way in November.

31. Do you recommend that the act of 1933, that prevents the Government from collecting interest on deposits with banks, be repealed?

(*a*) If you do not recommend repeal of the act, please state if you believe the law should be changed so that the Government can collect interest on its balances held by the private commercial banks?

I do not think the law should be repealed or changed.

32. Do you consider commercial banks public utilities?

(*a*) If you do consider a bank a public utility, do you recommend additional requirements of banks in order to more properly and effectively serve the public interest?

(*b*) Do you believe there are any requirements of banks at this time that should be changed or repealed in order to more properly serve the public interest? If so, please indicate them.

While banks are not public utilities in the generally accepted use of the term, their services are very closely allied to the public interest and that is why we have supervisory and other regulatory legislation. I have no suggestions for changes in our banking laws at this time.

Representative BENDER. Mr. Chairman, there are just 1 or 2 other questions that I would like to ask.

Is it not a fact that the condition that you are faced with now is something that you did not create as a member of this administration, or this administration did not create? Rather, you inherited it?

Secretary HUMPHREY. Mr. Bender, we inherited an enormous debt. We inherited a tremendous amount of what I have always referred to as c. o. d. orders, or orders that had been placed for the delivery of goods with no money in the cash drawer to pay for them. We inherited a lot of complications. We inherited a thing that is almost forgotten. We inherited an economy that was completely governed by restrictions, wage restrictions, price restrictions, a complete set of controls over everything that was done. Of course, some of those things are things that could be changed very rapidly, and some of the things are things that you cannot change rapidly. As I have said many times, you cannot change the course of 20 years in 20 days or 20 months, as far as that is concerned. So that there is a lot of inheritance that is involved in our present situation.

Chairman WOLCOTT. Mr. Bender, will you yield to me just a minute?

I think the Secretary might want to revise his statement to qualify it, because it seemed to be somewhat more general than I thought he intended the word "controls" to be, made the remark that everything was under controls, and he wanted to make it a great deal more flexible.

Secretary HUMPHREY. That is right, Mr. Chairman. Thank you. We had a very broad set of economic controls. Thank you.

Representative BENDER. And is it not a fact that you are being realistic about your job, and the administration is endeavoring to be realistic and be honest with the American people, and rather than pursuing a policy of improvising, you are facing the truth and the facts after the stopping of the shooting war, and you are endeavoring to pursue this thing in an honorable and decent fashion, rather than playing politics?

Secretary HUMPHREY. Mr. Bender, we have certain definite objectives. We are attempting to work toward those objectives to do what we believe is the best thing for the American people.

Representative BENDER. That is all, Mr. Chairman.

Chairman WOLCOTT. Are there any further questions?

Senator SPARKMAN. Yes, Mr. Chairman, I would like to ask a few questions, if no one else wants to ask any.

I shall be brief, Mr. Secretary, because most of the things that I had jotted down have been covered. There is one thing that I wanted to ask, though, going back to the budget, to the estimates that have been made and projected into the next fiscal year and throughout this calandar year. Those are based upon the assumption, as I understand it, that the tax program recommended by the President will be enacted into law?

Secretary HUMPHREY. That is right.

Senator SPARKMAN. And that program does not include any reduction of excise taxes, does it?

Secretary Humphrey. No reduction of excise taxes that expire on April 1.

Senator SPARKMAN. That is what I mean.

Now, just a few days ago, I saw a statement by Speaker of the House Martin, strongly advocating—and if we read the newspapers right, apparently the chairman of the Ways and Means Committee of the

House strongly advocates—letting those excises expire, or at least modifying them.

Secretary HUMPHREY. No. I think you are mistaken. What they said was, and as I understand it what was quoted by them was not the April 1 excises at all. They expressly excepted them. They were talking about other excises.

Senator SPARKMAN. But it was a modification which would help——

Secretary HUMPHREY. Not at all. Our present program that we have presented to the people, to the Congress, requests the extension of the corporate tax as it is, and requests the extension of the April 1 excise taxes as they are, and it says it requests that any modifications of other taxes be done in such a way, any adjustment that is made in them be done in such a way, as not to cost us money.

Senator SPARKMAN. In other words, if the excise taxes are modified, that other sources of revenue be found?

Secretary HUMPHREY. Now, you have to always differentiate between what excise taxes you are talking about, because the April 1 excise taxes is one set, and the other excises is another. Now, as to the other——

Senator SPARKMAN. Of course, I read the account of Speaker Martin's speech only in the newspapers. I have not seen his speech as a whole. But I gathered, regardless of what excise taxes we are talking about, it would have resulted in the reduction of the revenues the Government is expecting?

Secretary HUMPHREY. I did not understand he said so. In the first place, he specifically exempted from his remarks the April 1st. He said he did not refer to the April 1st. He referred to the others.

Senator SPARKMAN. All right. And you do not refer to the April 1st?

Secretary HUMPHREY. He did refer—he asked that the April 1st be extended. Now, nobody has suggested, that I know of, that that should not be done.

Senator SPARKMAN. All right. We will set them aside, then.

Secretary HUMPHREY. That is right.

Senator SPARKMAN. Now let us take the others. You have not made any recommendations that there be a reduction in the others, have you, in the program which you have submitted to Congress?

Secretary HUMPHREY. Not at this time; no, sir.

Senator SPARKMAN. Then if there is a reduction in those, that would react against your budget estimates, unless you make it up with new taxes?

Secretary HUMPHREY. That is right.

Senator SPARKMAN. Well, that is what I mean. Now, didn't Speaker Martin propose that these others, other than the April 1 expirations, be modified?

Secretary HUMPHREY. He did.

Senator SPARKMAN. So as to cost the Government money?

Secretary HUMPHREY. I do not know whether he——

Senator SPARKMAN. Unless new sources were found?

Secretary HUMPHREY. I don't know whether—he did not finish up and say what he proposed to do about it. He suggested some reductions in excises, but he did not say that he was not prepared to readjust all the way through, in some other way.

Senator SPARKMAN. In other words, you do not accept his statement, his advocacy, as being one of loss to the Government of expected revenues?

Secretary HUMPHREY. That is right.

Senator SPARKMAN. And what about the corporation tax? Again, if I read the newspapers right, there seems to be a very strong feeling that the corporation tax ought to be lowered to 50 percent.

Secretary HUMPHREY. Well, if it is, Mr. Sparkman, I have not heard of it. I have seen no obpection from authoritative sources to the continuance of that.

Senator SPARKMAN. But be that as it may——

Secretary HUMPHREY. I think that Chairman Reed has stated that he wants reductions of taxes. He wants more reductions of taxes. But I have not seen any specific reference.

Senator SPARKMAN. Now, Mr. Secretary, I was interested in the statement you made about bringing the budget close to a cash balance this year, and I rejoice in your near approach to such a balance. I hope you are able to accomplish it. But I have been looking over some of these statistics. So often we speak about the possibility of a cash balance this year that I think a great many people are thinking that we have never had one in the past. I have noticed that during the 7 years since the end of the war, we have had a cash balance 5 times. That is correct, is it not?

Secretary HUMPHREY. I cannot tell you. I have not the figures, but I do not doubt it.

Senator SPARKMAN. I will tell you, if you will look at the table on page 212 of the President's report, or if you will look at page 32 of the Economic Indicators, I think you will see that my figures are correct.

Secretary HUMPHREY. I have no doubt they are.

Senator SPARKMAN. In the calendar year of 1946, there was $42 million surplus; in the calendar year 1947, it was $5,666 million; calendar year 1948, it was $8,027 million; calendar year 1950, it was $45 million; calendar year 1951, it was $1,244 million. Then in the 1952 calendar year, we went back by $1,641 million, and then last year we had $6,200 million.

Secretary HUMPHREY. Seven.

Senator SPARKMAN. That is 5 out of 7 years.

Secretary HUMPHREY. Well, I just call your attention to this, Senator, that in 1951, in which it shows a cash surplus, part of that was a surplus which was developed by the enactment of the Mills bill, which took money from one year into another to balance it up.

Senator DOUGLAS. If I may be permitted to make an addition to this, I think the rough totals for the years 1946 to 1952, inclusive—and I find that the totals of cash surpluses for the 7 years as a whole amounted to $14 billion, so in the Truman administration, on a cash basis, the budget was balanced with a $14 billion surplus.

Secretary HUMPHREY. Senator, if you will just give me a chance to finish, if you please, I just also would like to make this comment with respect to it, that you were going through at that time—this country was going through at that time the sort of conditions that

I spoke about awhile ago, when I believe that we should accumulate cash and pay down on our debt. In other words, beginning with the end of the war, our expenses were declining very much more rapidly than our income, and that is the time when you do accumulate cash, and that time will come again, I believe, and should come again when our military expenses will rapidly decline and for a period of some time we will accumulate cash, just as was done during this particular period, and then it will be available to use to pay down on the debt.

Senator SPARKMAN. Mr. Secretary, of course I agree with you completely. I think you are right. But at the same time, I do feel that sometimes perhaps a great many people get to forgetting some things. I just wanted the record to speak the truth.

Now, Mr. Secretary, since my friend George Bender has discussed inheritances, I want to talk about that just a little bit. You mentioned as one of the inheritances the c. o. d. packages. Now, let me ask you, is the Government continuing to ask for appropriations for contracts that extend for more than 1 year at a time?

Secretary HUMPHREY. It is.

Senator SPARKMAN. Then we are going to continue to have c. o. d. packages into the future, are we not?

Secretary HUMPHREY. In very substantially reduced amounts. We are dropping down from the $80 billion down to about $54 billion, and we will be down very considerably below that the following year.

Senator SPARKMAN. Yes, because we were building up back in these past years, were we not? Since the beginning of the Korean war, we have been building our armed strength, have we not?

Secretary HUMPHREY. We were spending a lot of money.

Senator SPARKMAN. And we have reached the point where we are able, more or less, to level off, have we not, and really to cut some?

Secretary HUMPHREY. I think, to be perfectly fair about it, that the substantial reductions that are being made at the present time are made because of a new conception of the method of operating. It is a different program. I think this program is a different and a better program than the previous program.

Senator SPARKMAN. I certainly am not going to quarrel with you about that. If you want to believe that, I think you are entitled to it, and I am not asking you this on any political ground.

Secretary HUMPHREY. Surely.

Senator SPARKMAN. Again I believe that the record ought to speak the truth, and that is this, that several years ago the Congress changed the method of making appropriations so that instead of authorizing contracts for more than 1 year, we started appropriating money, and you have not recommended that that be changed, have you?

Secretary HUMPHREY. Senator, you have raised a very interesting point.

Senator SPARKMAN. I know it is. It is one that has given me considerable concern.

Secretary HUMPHREY. And I would like to just speak of it for just a minute. I do not want to be critical of the past. I do not think that gets us anywhere, but I do think, in looking over our present situation, that it is wise to see what did happen. I think the Congress made a mistake when it changed the former policy.

Senator SPARKMAN. Are you going to recommend that it be changed?

Secretary HUMPHREY. We appointed several months ago a committee of accountants to study into this situation of the budget and appropriations, and this whole picture, to see what could be done, with a view to seeing how this could properly be corrected. Now, we are going to get the report of that committee within the next 2 weeks, I hope. They have been working at it now for several months, and I hope that we are going to be able to have a program that will help to get this appropriation, this greater discrepancy in appropriations, and all, worked back onto a better basis than it is on at the present time.

Senator SPARKMAN. Of course, as long as you buy materials that require more than a year to build, you are going to have to project something into the future, whether you call them c. o. d.'s or not, are you not?

Secretary HUMPHREY. That is right. And I think it largely relates as to who controls it. I think that what has happened is that to a large extent, under the present policy, Congress has pretty well lost control. I think that Congress ought to get a better control back again, and I hope that we will be able to propose something that will accomplish that.

Senator SPARKMAN. I am asking these questions because I have not been satisfied with the present plan. But I can remember when we used to appropriate under the contract authorization, and after a contract authorization was given, what control did Congress have then? The next year Congress felt a moral obligation, and I suppose a legal obligation, to appropriate to take care of that contract that it had authorized to make.

Secretary HUMPHREY. No; I do not believe a legal obligation, or moral, either, as far as that is concerned.

Senator SPARKMAN. Well, not legal, because, of course, Congress cannot be sued. But certainly moral.

Secretary HUMPHREY. You did find yourselves in this situation, that you would have wasted quite a little money if you canceled, you see. Now, on the other hand, you did have—Congress did have more control under the old system that it has under this system, because you could have decided to cancel.

Senator SPARKMAN. You mean that it would check up each year to see what progress is being made, and so forth?

Secretary HUMPHREY. That is right.

Senator SPARKMAN. If that is true, I earnestly hope that this administration will recommend a change back to that.

Secretary HUMPHREY. We are studying it, and we hope to have something that will meet with your approval.

Senator SPARKMAN. But if I remember correctly, that change was made during the war period.

Secretary HUMPHREY. I believe so.

Senator SPARKMAN. When, of course, we could not wait to have things done. They had to be done as quickly as possible, and they had to have the means with which to do it.

Secretary HUMPHREY. I think that is right.

Senator SPARKMAN. By the way, I am not predicting a recession, but if we should have one, or if things should get worse and the administration felt that it was desirable to speed up production, either in the civil-defense program or in defense works, in order to get factory wheels turning again, this flexibility that was afforded under these c. o. d. order plans might come in pretty handy, might it not?

Secretary HUMPHREY. Well, I do not quite see how they would be operative. They are scheduled—you see, they are on schedules, and it would be pretty difficult——

Senator SPARKMAN. I know it would be difficult. But as long as you have control, you can speed up those schedules.

Secretary HUMPHREY. I know. But you see, you have to balance out a program. One of our great difficulties was that deliveries in the programs were so far out of balance that you had too much of some things and too little of others, and the result was that you did not have anything that was balanced and effective. Now, one of the big efforts they are making is to try to get into better balance so as to be more effective. And, of course, you have a lot better chance to do it now than you had sometime ago, because of the very fact that you are not confronted with shortages and a lot of other difficulties.

Senator SPARKMAN. Mr. Secretary, I am about through, but before I finish I would like to call your attention to the fact that not only was the cash budget balanced during 5 of those 7 years, but the administrative budget was balanced for 3 of those same 7 years.

Secretary HUMPHREY. I think that was attributable, and very properly so, to the period of prosperity in which the country was at that time. We were walking forward, and I think it was a very proper thing to have occurred.

Senator SPARKMAN. Yes. We had high taxes and relative prosperity.

Secretary HUMPHREY. That is right.

Senator SPARKMAN. And naturally we did get more money than we needed to pay expenses. And I hope to see that time come again.

Secretary HUMPHREY. I do, too.

Senator SPARKMAN. Now, Mr. Secretary, one other thing. When you follow this suggestion of the chairman modifying your statement regarding controls, will you please remember back that we had virtually no controls in January 1953. Just think that over, will you?

Secretary HUMPHREY. What? Of course, I recall, Senator, one thing that was a little out of control, and that was our spending.

Senator SPARKMAN. Yes.

Secretary HUMPHREY. But outside of that, it seems to me that business and activities of the public were under all sorts of controls in January.

Senator SPARKMAN. Of course, we are still facing a big deficit, but I did not want to bring that up.

Sincerely, I am quite sure that a fair checking of the records would show—and I think most of the members of this joint committee are on the two Banking and Curerncy Committees, and they well realize that inflation had been brought well under control, and as it was brought under control, the controls on our economy went off. Lots of people continued to talk about them when they actually were not there.

Secretary HUMPHREY. Why, Senator, we had—I forget, now—6,700 people, or something, here in Washington at that time administering controls on prices and wages and allocations, and everything that you could think of.

Senator SPARKMAN. Yes. But 2 years before we had written into the law a requirement for decontrol, and the economy was being decontrolled as fast as we could, and practically all controls were off in January 1953.

Secretary HUMPHREY. I think you had better look at the record on that.

Senator SPARKMAN. I am asking you to.

Representative BENDER. I think so, too.

Secretary HUMPHREY. You had better look at the record on that one.

Senator SPARKMAN. It is noticeable that the chairman of the House Banking and Currency Committee checked you on that statement.

Secretary HUMPHREY. I think he checked me on the statement.

Senator SPARKMAN. That is all, Mr. Chairman.

Chairman WOLCOTT. Are there further questions?

Senator DOUGLAS. I have no further questions. But in order that the statistics may partially catch up with the statements, I should like to put into the record two pages from a study by the Brookings Institute entitled "Share Ownership in the United States," dealing with the statements that have been made, that in the main it is the low-income groups which own the stocks of the country.

This study shows that the estimated total number of share owners in the country was 6,490,000, or only 4.2 percent of the population, and 4,750,000 families, or 9.5 percent of the population owned shares.

Chairman WOLCOTT. When were the studies made?

Senator DOUGLAS. 1952.

And now I would like to state the results by income groups and by families. For families with less than $2,000 in incomes, it was found that only 2.2 percent of these families owned shares.

Representative PATMAN. Does that give the amount of dividends received, or is that just share ownership?

Senator DOUGLAS. No; share ownership.

Families of $2,000 to $3,000, 3.6 percent owned shares; families of $3,000 to $4,000, 4.6 percent owned shares; families of $4,000 to $5,000, 7.4 percent owned shares; families of $5,000 to $10,000, 19.8 percent owned shares; families of $10,000 and over, 55.1 percent owned shares—indicating that the percentage of stock ownership is, as one would believe, infinitely higher in the larger income groups than in the lower income groups.

In addition to that, there is the point that my colleague mentioned that those in the upper incomes owned more shares per family, and hence they get a still larger portion of their income from dividends. Now, this is exactly what has been shown in the annual reports of the Treasury Department, over which Secretary Humphrey presides, and at a later date I will reserve the right to put into the record information showing the percentage of income of the various income groups which is derived from dividends and also from interest payments. I think the record shows that in the main, of course, the income from ownership is primarily with those in the upper income groups rather than those in the lower group. It is simply commonsense. I introduce this at this time to correct what I am afraid has been an erroneous impression from statements previously made.

Chairman WOLCOTT. The study in that respect may be inserted.
(The documents referred to follow:)

Family units holding publicly owned stocks distributed, by combined family income

Reported combined family income [1]	Total family population		Share-owning family units		
	Percent	Number	Percent of group population	Estimated number	Percent of total
Less than $2,000	19.8	9,910,000	2.2	220,000	4.6
$2,000 to $3,000	17.1	8,560,000	3.6	310,000	6.5
$3,000 to $4,000	22.0	10,990,000	4.6	510,000	10.7
$4,000 to $5,000	16.4	8,210,000	7.4	610,000	12.9
$5,000 to $10,000	21.0	10,480,000	19.8	2,080,000	43.8
$10,000 and over	3.7	1,850,000	55.1	1,020,000	21.5
Total families	100.0	50,000,000	9.5	4,750,000	100.0

[1] Based on anticipated 1952 income before taxes as reported by a representative family member, usually the head.

Individual share owners of publicly owned stocks distributed by incomes reported for their families as units

Reported combined family income [1]	Total population		Individual share owners		
	Percent	Number	Percent of group population	Estimated number	Percent of total
Members of families reporting incomes of:					
Less than $2,000	16.5	25,660,000	1.1	280,000	4.3
$2,000 to $3,000	15.7	24,460,000	1.4	350,000	5.4
$3,000 to $4,000	23.1	35,900,000	1.6	590,000	9.1
$4,000 to $5,000	17.6	27,370,000	3.0	830,000	12.8
$5,000 to $10,000	23.0	35,820,000	8.0	2,880,000	44.4
$10,000 and over	4.1	6,310,000	24.7	1,560,000	24.0
Total individuals	100.0	155,520,000	4.2	6,490,000	100.0

[1] Based on anticipated 1952 income before taxes, as reported by a representative family member, usually the head.

Secretary HUMPHREY. Mr. Chairman, I would just like to say this. You will recall that it was not my testimony that you are talking about.

Senator DOUGLAS. I thought certain statements of yours might slant in that direction, Mr. Secretary, as well as the statements of——

Secretary HUMPHREY. No. I think I told you—you asked about what the number of stockholders was, and I told that I believed it was between 6 million and 7 million, something of that kind, of stockholders in this country, and the thing that that list, of course, does not show, the thing that I spoke about, is the participation in corporate profits that accrue to people through their insurance and pension plans, and all, which is not taken into account in that tabulation at all.

Represetative PATMAN. I want to ask him a question on that pension plan.

Senator CARLSON. Mr. Chairman, before you leave that point, I would like to suggest that if Mr. Simpson has received some information in the hearings before the Ways and Means Committee and it is available, he should be given permission to insert it in the record.

Chairman WOLCOTT. If Mr. Simpson thinks it is desirable, that may be inserted.

Representative PATMAN. Now, on the pension plan—I assume that you have charge of the social-security fund, about $18 billion, do you not, Mr. Secretary? Now, none of that is invested in anything except United States Government securities, is it?

Secretary HUMPHREY. That is right. That is the Federal.

But there are millions and millions of dollars of other plans.

Representative PATMAN. About how many other pension plans are there?

Secretary HUMPHREY. I could not tell you that, but there are a great many.

Representative PATMAN. In the tens of thousands?

Secretary HUMPHREY. There are a great many.

Representative PATMAN. Fifteen thousand or twenty thousand?

Secretary HUMPHREY. I think it may be even more.

Representative PATMAN. Do you know the average amounts of assets of those other plans?

Secretary HUMPHREY. No, I cannot tell you. But between pension plans and insurance companies, we are getting into the billions of dollars, and it is growing tremendously.

Representative PATMAN. In the case of private plans, I assume a certain percentage of the assets are invested in the stock of the company that is sponsoring the particular fund. In other words, if X company's employees have a pension plan, isn't it reasonable to expect that their fund would invest more in the stocks and securities of X company.

Secretary HUMPHREY. Oh, no; just the contrary, because they are seeking stability outside of their employment.

Representative PATMAN. Yes, I can see that, too. But you have no figures to substantiate your statement that the recipients of old age benefits from private pension plans or insurance plans get a large amount of what they receive from returns on the securities of private industry?

Secretary HUMPHREY. I can supply you with plenty of figures, and we will be glad to do so, showing that there are large amounts of dollars in pension and insurance companies invested in securities.

Representative PATMAN. That is what I would like to have, if you will.

(The material requested follows:)

The over $78 billion in assets of life-insurance companies represent the investments of over 90 milion policyholders. Over $33 billion of these funds are invested in securities of business. These investments will be favorably affected by the dividend, depreciation, and other tax proposals improving the climate for risk-taking and investment.

Similarly the assets of private pension plans that are not insured have been estimated at nearly $10 billion and over 70 percent of these assets are invested in the securities of business. Almost 6½ million persons were covered by these plans in 1951.

Chairman WOLCOTT. Are there further questions?

(No response.)

Chairman WOLCOTT. Mr. Secretary, and Mr. Folsom and Mr. Burgess, we are very pleased to have this contribution, and we may be at liberty, I assume, to call on you during these hearings or any other time for any information which you might give us to help us further.

Secretary HUMPHREY. That is right.

Chairman WOLCOTT. I want to say also that you will have permission, of course, to revise and extend your remarks in any way that you think would add to the understanding of the subject, and especially grammatical corrections. I have not noticed any, but there might be some.

Secretary HUMPHREY. In 1 or 2 of the exchanges that took place, I noticed that the reporter was having a little difficutly keeping up.

Chairman WOLCOTT. Tomorrow morning in this room at 10 o'clock we will have William McChesney Martin, Chairman of the Board of the Federal Reserve, and I guess the program for the balance of the week has been announced, and will be announced from day to day. If there is nothing further, we will stand in recess until tomorrow morning at 10 o'clock.

Secretary HUMPHREY. Thank you.

(Whereupon, at 1 p. m., Tuesday, February 2, 1954, the joint committee recessed, to reconvene at 10 a. m., Wednesday, February 3, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 3, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:20 a. m., in room 1301, New House Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott; Senators Flanders (vice chairman), Fulbright; Representatives Simpson (Pennsylvania), Talle, Bender, Patman, and Bolling.

Also present: Grover W. Ensley, staff director, and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We have with us this morning William McChesney Martin, the Chairman of the Board of Governors of the Federal Reserve System, and with him are Mr. Young and Counselor Cherry.

Mr. Martin has a prepared statement. With the committee's consent, Mr. Martin may read the statement without interruption, and we shall ask questions following that.

Mr. MARTIN. I thank you.

STATEMENT OF HON. WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, ACCOMPANIED BY RALPH A. YOUNG, DIRECTOR, DIVISION OF RESEARCH AND STATISTICS; AND ALFRED K. CHERRY, LEGISLATIVE COUNSEL

Mr. MARTIN. For nearly a decade and a half, our economy has been dominated by war, the economic consequences of war and preparedness against war.

We are now undergoing a transition toward greater reliance upon the private sectors of our economy and less upon defense-stimulated public activity.

Since prewar years, the economy has enormously expanded. For an unusually long time, it has operated at high, and at times very high, levels of employment. We have become accustomed to recurrent shortages, to waves of inflationary pressures, and to rapidly expanding output. To some people, any change from these familiar conditions seems ominous. Surely, it would be the height of folly to ride the witch's broomstick of inflation to the inevitable crash.

Anxiety can be overdone. Unless exposed to the broad daylight of facts it could lead to severe declines in buying and hence in production and employment. There's a realistic medium, I think, somewhere between being a Pollyanna and a Cassandra. Realistically, after so long a period of upswing—much of it under forced draft—we need to expect a period of testing of the economy's basic strength and resiliency.

The only certain way of dealing with the problems confronting us is to face up to them and work together to appraise and to meet them. The salient facts about the economy's current position and its problems are set forth in the Economic Report of the President, which is before you. I should like to discuss some of these points from the standpoint of the Federal Reserve.

RECENT PRODUCTION AND EMPLOYMENT DEVELOPMENTS

Since midsummer 1953, the Reserve Board's index of industrial production has declined almost as much as during the mild recession of 1948–49, when it dropped about 10 percent. Since late summer, unemployment has doubled. But it should be borne in mind that the decline in production has taken place from a record high level, and unemployment has increased from a record postwar low level.

Currently, where excessive stocks exist, businessmen are undertaking to bring them into line with sales. Competition has been intensified, not among buyers as during the war and much of the postwar period, but among sellers. Efforts are being made to cut costs, please customers, improve products, meet market needs, and keep financial commitments prudent. The consumer is no longer a forgotten man, and that is as it should be in a healthy economy.

Even after the downward adjustment that has taken place, the current level of activity today is high. Output at factories and mines, while less than in early 1953, is greater than in early 1952. Unemployment is only moderately above January of the last 2 years and consumers, whose purchases take nearly two-thirds of the Nation's output, are buying as much as a year ago.

The slackening in economic activity since mid-1953 is the first decline in overall output of goods and services since 1949. Gross national product declined from a seasonally adjusted annual rate of $371 billion in the second quarter to an estimated $362 billion in the fourth quarter, when total product was about at the level of a year earlier. Reflecting these changes, mid-year employment and hours of work have been reduced and the labor market generally has eased. Unemployment has risen from its postwar low of 1.2 million to an estimated 2.4 million in January, reflecting in part, of course, seasonal influences.

This is the vital statistic we must watch vigilantly. Since the end and aim of our society is the welfare of human beings, we cannot and we need not tolerate the cruelty, the indignity of widespread loss of opportunity for gainful employment. Men may differ over what is or is not a tolerable level of unemployment. I, for one, do not subscribe to the harsh notion that some unemployment—how much is rarely stated—is a good thing. The man who wants to work and earn a livelihood cannot be expected to be tolerant about any statistical figure of unemployment if it includes him.

However, variation in employment from time to time is inevitable in a modern, progressive economy. It is an inescapable part of the process of progress. For every village smithy that flourished in the horse-and-buggy age there are scores of garages and service stations today. Progress ends some jobs but creates new ones in increasing numbers.

I do profoundly believe that no other system of government, no other economic order, could have liberated the forces, the energies, the inventiveness, which have brought forth in this Nation an abundance, a rising standard of living for its people that is unrivaled in all the history of the world. The faults, I think, lie not in our economic system but rather with us. We have learned something about economic measures to minimize the evils of unemployment; for example, we have a nationwide system of insurance to help tide over periods of downturn. We must seek constantly to alleviate the human suffering and to reduce the economic waste of unemployment. That is of the essence of progress under our institutions. It is a primary concern, of course, of this committee.

SOME FACTORS IN THE CURRENT DOWNTURN

A key factor in receding activity has been a turnabout of business spending for inventories. Last spring, when as a Nation we were producing more than we were buying, inventories were being built up at an annual rate of $7 billion. At year-end they were being reduced. The reduction in spending for inventories was as large as the decline in total output of goods and services. If the current readjustment period is primarily the result of an inventory overload, the speed and orderly nature of this adjustment is encouraging.

Following 3 years of steady buildup, a gradual reduction in defense spending since the middle of last year has also contributed to lessened activity. Such spending is still large and continues to account for about one-seventh of total national product.

Other types of activity have been well maintained. State and local outlays for current operations and for schools, roads, and other public works have continued to rise. Business expenditures for fixed capital have held close to record levels. Residential building has strengthened following some easing last spring and summer. Consumer spending for services has increased further and other consumer buying has been well maintained.

Some declines in imports of industrial materials have accompanied reductions in output, but exports were steady throughout 1953. Maintenance of foreign purchases of American products has reflected, on the one hand, high and generally rising demand abroad, and, on the other hand, the growing financial strength of other nations outside the Communist orbit.

The downward adjustment thus far has been orderly. There has been no perceptible weakening of the economy's financial fabric. Price changes have been selective, and largely offsetting. After earlier declines, average prices of farm products and industrial materials have been fairly steady for some months, with price supports, of course, a special factor in the stability of the farm sector.

Reduction in personal income taxes, which were effective January 1, and increased unemployment compensation benefits have largely offset declines in personal income. Corporate incomes after taxes have benefited by the expiration of the excess-profits tax. Consumers and businessmen, while more cautious than earlier, continued to reflect confident attitudes regarding their financial positions and in their acquisition of tangible assets. The equity positions of the major sectors of the economy continue strong in comparison with other high-level periods of history. From their mid-year highs, market interest rates have declined appreciably and credit has become more readily available.

Declines in economic activity and employment are rightly a matter of concern. In the light of history, however, it would be utterly unrealistic to expect the economy to perform indefinitely without pause. All in all, the performance of the economy since mid-year is evidence of marked underlying strength and resiliency.

ROLE OF CREDIT AND MONETARY POLICY

Broadly speaking, there are always two dangers to be avoided in a growing economy: a too rapid upsurge of demand pressures, producing inflation; or a too rapid contraction of spending, producing deflation.

In the credit and monetary field, the Federal Reserve has tried to be alert to the shifting of forces at work in the economy and to take appropriate action. A year ago, the System raised rediscount rates and followed a policy of restraint of excessive bank credit expansion in order to be on the safe side in guarding against inflationary pressures. At that time, speculative trends appeared to be developing in demands for credit, particularly for credit which might find its way into topheavy business inventories.

As the inflationary threat abated in the late spring and summer, the Reserve System acted, beginning May 8 of last year—I might say it was at the meeting of May 6 of the executive committee that this action was decided upon, but actually action did not begin until May 8—to provide assurance to financial markets and to business that legitimate needs for funds for stability and growth would be met, including those of business, consumers, and the Treasury. It was also clear by summer that the earlier excessive exuberance had disappeared. By easing credit, through reducing reserve requirements early last July, it was felt that inventory adjustments could proceed in an orderly manner. It was also felt that, if mortgage and other markets for longer term funds would become more settled, they would more effectively contribute their share to the maintenance of a high level of activity in housing, private capital investment, and State and local government projects.

In early autumn, and again near the end of the year, the Reserve System took further steps through open market operations to provide the reserves necessary to meet seasonal currency demands and deposit expansion. These steps, at a time of slackening private credit demands, contributed to a condition of active ease in credit availability, appropriate to a period of readjustment such as we have been experiencing.

SOME CONSIDERATIONS, LOOKING AHEAD

In looking beyond the next few months there are a number of fundamental consideration which need to be kept in mind in appraising economic developments and in shaping legislation designed to foster a continuing high level of employment and activity. These considerations, I think, merit your attention:

In the transition to an economy dominated by private wants and competitive market forces, we need to reorient our thinking and to recognize that markets go down as well as up. In our competitive, private enterprise economy, we rely primarily upon the operation of market forces in adjusting to changing conditions of demand and supply. That does not mean for a moment a fatalistic acceptance of low levels of activity but rather a conviction that our vast resources and energies can thus be utilized more fully in raising the standard of living.

Long-run growth in the economy must stem increasingly from private demands. Consumers purchase directly the bulk of the Nation's output. In the period ahead as Government requirements are reduced, private consumption should increase. Therefore, future growth of private demands depends largely on the willingness and ability of consumers steadily to expand their purchases. Business has to be constantly alert to potential shifts in consumer needs and buying psychology in order to anticipate and to meet them by developing improved or new products and services at prices the consumer can and will pay.

Stocks of houses and of many durable goods have been greatly increased since the war. More than 8 million permanent nonfarm dwelling units have been built; the number of passenger cars on the road has increased from 26 million to 44 million. Even so, there is still a great need for housing as the number of households and the population continue to grow. Similarly, while the number of cars on the road has greatly increased, the number still in use that are 10 years or more old totals about 11 million. As to other durable goods, improvements have increased the rate of obsolescence of many old models and thus have added to replacement demand. Meanwhile, introduction of new types of durable goods should help us sustain a high volume of total output of consumer durables.

Plant and equipment expenditures of business in postwar years, despite their high levels, have not been markedly different in their relation to total national product from those in earlier years of high-level activity. While expansion since Korea has been accelerated in various defense areas, it has been reduced in others. In the case, for example, of electric power, rapid expansion of demand has maintained strong pressure for investment in new facilities.

Increased levels of production costs resulting primarily from postwar inflation, together with the rapid development of technology, provide strong incentives for further large business capital expenditures. In many instances, these incentives are strengthened rather than weakened by more competitive markets. Industrial research is daily uncovering new opportunities for business investment.

We continue to have backlog needs for investment in commercial, office building, hotel, church, and hospital facilities; and the need for public works—schools, other public facilities, roads, and highways—seems insatiable. The problem for the future is mainly how to translate these basic needs into effective market demand.

In the international economy, recovery in output and supplies, and restoration of stable monetary conditions have gone far enough to enable the countries of Europe to participate aggressively in world markets. There has been growing belief in the possibility of linking together the market economies of free-world countries into a single system with fewer barriers to trade and investment. If this country can maintain or expand its import volume, and if further progress can be made toward financial stability abroad, a cumulative lifting of world trade and investment barriers appears to be quite feasible, thus opening the way for expansion of capital flows to and trade with underdeveloped and rapidly developing areas.

Private debt in this country has undergone swift growth during the postwar period—more rapid than would be likely in a period of price stability—but it is well to keep in mind that it was not at an unduly high level at the end of the war. National wealth, in real terms as well as in current prices, has increased more than debt over postwar years. This is in contrast with the 1920's when the substantial increase in private debt was barely matched by growth in wealth. At present private financial positions—business and consumer—while much less liquid than at the end of World War II, are nevertheless relatively favorable in comparison with the prewar period.

I have touched on these various aspects of the economy because they constitute part of the background and foreground one must have in mind in connection with monetary and credit policy. The economic report before you summarizes what has been done in coordinating the field of debt management with that of monetary and credit policy—and I need not elaborate on it here.

I want to emphasize, however, the adaptability and flexibility of monetary and credit policy. It is, and must be, closely coordinated with debt management, but, so far as credit and monetary policy is concerned, we are on our own in the Federal Reserve System. If we have erred, the responsibility is solely ours. The record demonstrates, I think, that we have sought to be alert to change, and, if possible, to anticipate it, and to adapt policy to it. In that, I think, lies another reason for the cautious optimism that I would say is my attitude toward the future of the economy. We will strive to make available that volume of reserves, which is difficult to measure with fine precision ahead of time, that will help to safeguard the economy from the too much that feeds inflation or the too little that feeds deflation. In other words, the goal is a growing economy and a rising standard of living. On that objective, I think, we can all agree.

Surely, credit and monetary policy is potent but not omnipotent. It cannot, alone, keep us on an even keel of forward progress. Yet, without it, the goal of stable progress would, I think, elude us entirely. It must be timely, flexible, adaptable, as I have said, and it must not only be properly coordinated with debt management but it must be consistent with our institutions, including our concept of the market place. It is fair to say, I believe, that we have made notable progress during the past year toward freer, self-reliant money markets that are, I think, the hallmark of democratic, private enterprise institutions.

The considerations which I have touched on do not, to be sure, dispose of all the problems that can be raised respecting the future. A modern, progressive economy, activated and coordinated through the incentive play of market prices, will be characterized by instabilities in particular markets and by changes in the rhythm of total activity. The central problem of public as well as private policies is to maintain a steady and sustainable pace of general expansion. That is the aim of credit and monetary policy.

Chairman WOLCOTT. Mr. Martin, do you think that you now have the facilities at your command that will allow you effectively to expand or contract the money supply to meet this situation which we are approaching?

Mr. MARTIN. Mr. Chairman, I do. I think that our open-market operations and our reserve requirement flexibility and our use of the discount mechanism are adequate to do as much as can be done through monetary policy, which is not the only factor in an economy, to carry forward the progress that all of us are seeking.

Chairman WOLCOTT. Are you having any trouble in maintaining accord with respect to that policy with the Treasury, that is in their problem of debt management?

Mr. MARTIN. We are working very closely and continuously with the Treasury in this administration, as we did in the past administration, and we are gearing our policies in with the Treasury's policy for our common objective.

Chairman WOLCOTT. At the present time you do not have in mind any legislation which is needed to implement or to supplement the authorities which you now have?

Mr. MARTIN. No, sir.

Chairman WOLCOTT. Senator Fulbright?

Senator FULBRIGHT. Mr. Martin, I noticed especially on page 10, beginning at the bottom, where you said:

> There has been growing belief in the possibility of linking together the market economies of free-world countries into a single system with fewer barriers to trade and investment.

And on the next page you say:

> * * * a cumulative lifting of world trade and investment barriers appears to be quite feasible. * * *

What makes you think that they are feasible, and that there is growing belief in this? What do you base that statement on?

Mr. MARTIN. I base it on the enormous growth of gold and dollar assets of the countries of the free world.

I think in the last 3 or 4 years there has been notable progress in the closing of the so-called dollar gap by trade, and I think there has been a steady drift toward convertibility. While we have been talking about convertibility as something that would be achieved at a given point, I think there has been constant progress in that direction.

Senator FULBRIGHT. Do you think that convertibility can be reached—assuming, of course, that our aid programs are not going to continue at the level they have in the past few years, and that is fairly generally agreed—do you think that there is anything to indicate a tendency on the part of this country to facilitate greater imports and greater international trade?

To be more specific, you saw the Randall report?

Mr. MARTIN. Yes, sir.

Senator FULBRIGHT. And you saw the dissent to the Randall report?

Mr. MARTIN. Yes, sir.

Senator FULBRIGHT. Does that lead you to believe that we are likely to promote a policy of freer trade in this country?

Mr. MARTIN. I do not know what the outcome of the Randall Commission report will be. You know better than I would on that subject.

Senator FULBRIGHT. That is a matter of common knowledge. What struck me as interesting here is that the chairman of both the key committees, the Finance Committee of the Senate and the Ways and Means Committee of the House, vigorously dissented from the Randall report, indicating, I would think, to a member of this body, that there is likely to be no progress toward freer trade.

Do you not think that is a reasonable decision from those dissents?

Mr. MARTIN. I would not be in a position to comment on that.

Senator FULBRIGHT. If that is true, I think your statement, particularly as to its being quite feasible, may be a little more hopeful than it is realistic.

Mr. MARTIN. I am talking there about the economic forces, Senator Fulbright, and I believe the economic forces are moving in that direction.

Senator FULBRIGHT. You understand, I am strongly in favor of its moving that way.

Mr. MARTIN. I understand.

Senator FULBRIGHT. I am not trying to debate the other. What I would like is to enlist the aid of the Federal Reserve in moving in that direction. But what is disappointing to me is that the dissents to the Randall Commission report would indicate that we cannot do much toward even simplifying the regulations, we will say, the tariff regulations, much less lowering tariffs. Would you say that it is a good policy to try to free the channels of trade?

Mr. MARTIN. I would associate myself with the majority.

Senator FULBRIGHT. Of the Randall Commission?

Mr. MARTIN. Of the Randall Commission.

Senator FULBRIGHT. That is what I wanted you to say.

Mr. MARTIN. That is what I have stated here in these two paragraphs.

Senator FULBRIGHT. Well, it is not clear that you have stated that. In fact, you are a lot more hopeful, I think, than that report would indicate.

Mr. MARTIN. That is a judgment on which I cannot pass. You people are better able to pass on it than am I.

Senator FULBRIGHT. You have been around here a long time. You know about how these committees operate. But it is clear that you think that in the event we should go out for the objective you agree on, you say that gradually, at least we will have a greater flow of international trade?

Mr. MARTIN. That is correct.

Senator FULBRIGHT. And among other things, one of the important things is a greater foreign investment by American capital? That is part of it, is it not?

Mr. MARTIN. That is part of it.

Senator FULBRIGHT. Which leads me to the next question, with regard to investment. We had the question yesterday on policy with regard to taxes. Do you think under the present conditions they should be designed to encourage—and this is a matter of degree—greater productivity or greater consumption?

Mr. MARTIN. I think they have to be designed to achieve both.

Senator FULBRIGHT. That is quite true. We have to do both. Can you not express an opinion as of the present time whether or not the greater problem is production or consumption? Is that possible, to have an opinion about that?

Mr. MARTIN. I have given a lot of thought to that, Senator, and I honestly do not think it is possible.

Senator FULBRIGHT. No; it is difficult to have a sound judgment on it, because the business process, the business flow, is very difficult to gage. What we have got to do is to encourage investment and consumption both, simultaneously. Now if you increase the amount of money that the consumer has, he may not spend it. Of course, if he hasn't got money, he can't spend. But typically he does not like to spend as much as he has, he tends to keep some back for a rainy day. I happen to be a tremendous bull on this country. That is a sincere conviction. I think that we have not scratched the surface.

Senator FULBRIGHT. You mean, long term?

Mr. MARTIN. Long term.

Senator FULBRIGHT. I think we all are. There is no difference about that. We are talking about the near term, about this year, next year, and the next 5 years, and not the next hundred years.

Mr. MARTIN. But what I have been trying to say in between the lines of this statement, is that insofar as the long term is concerned, we are all in agreement.

Senator FULBRIGHT. That is right.

Mr. MARTIN. But insofar as the short term is concerned, I do not believe at this juncture you can do anything more than assume that the adjustments which are occurring are taking place in the orderly fashion that they are, and that perhaps the emphasis should be on the productive side of the economy rather than on the consumption side, although I am looking for consumption to pick up. In other words, the problem now is how to reduce inventories as a means of encouraging production. At the same time we have so many new products and so much obsolescence in durables, and this requires new investment and new plant and new incentive for investment to keep investment a continuous process. On balance, I think, if I were forced to make a judgment, my judgment at the moment is leaning in the direction of believing that, even for the short term, it should be on the productive side.

Senator FULBRIGHT. Of course, when we vote on a bill, a tax bill, we are in that unenviable position of having to make a choice. I mean, we either pick or we leave a certain policy, a particular tax, for example. We are going to be confronted with that.

Mr. MARTIN. Yes.

Senator FULBRIGHT. So all we are seeking is your advice. So as I understand it, if you have to choose, as you say, the more beneficial to the stability of our economy, the emphasis is upon production?

Mr. MARTIN. That is correct.

Senator FULBRIGHT. Therefore, the policy of greater depreciation allowances, that is, the proposal which you are familiar with, two-thirds, I believe, in the first half of the estimated life, I believe, would be preferable to an increase in the exemption from $600 to $700, if you had to choose? Would that be it?

Mr. MARTIN. That would be my judgment; yes, sir.

Senator FULBRIGHT. That is what we want to know, because that is the type of choice we have to make, and inasmuch as one's judgment in the administration will prevail, it is comfortable to know whether or not you think that is a wise one, whether or not I might agree with it, so that that would contribute to the stability of our economy during the next several years, or during the next year which is our immediate future.

One other question. About the money supply, is the money supply presently available adequate for the estimated rate of activity, or gross national product, I believe, is what you term it, during the coming year, or do you feel that it is all right or too little or too much?

Mr. MARTIN. Well, we think that it is adequate at the moment, but I am stressing the fact that there is no formula that I can find which will help us over the necessity of constant adjustments, other than, I might say, the formula of commonsense.

Senator FULBRIGHT. I expect you are the right agency to supply comparative figures for the committee. I asked about it from the Treasury, from the Budget, and they did not have them available. Could you make available the relation between the money supply and the rate of activity, of the gross national product, as of today and as of 1933 and as of 1937?

Mr. MARTIN. We will be very glad to.

Senator FULBRIGHT. You have those statistics?

Mr. MARTIN. We will be very glad to work those statistics up.

Senator FULBRIGHT. I would ask, Mr. Chairman, that they be made part of the record for our information.

Mr. MARTIN. I will ask Mr. Young—he is the head of our Division of Research and Statistics—to give you what figures he has here, and he will supply any additional ones.

Senator FULBRIGHT. If he has them there, I would be glad to have them for the record right now. They are not very long.

Mr. YOUNG. We may not have exactly the figures you want. In part, it depends on what one means by "money supply." If it is used in the very gross sense of currency in circulation, demand deposits in banks, and time deposits in banks, then the ratio of the money supply to the total national product is about the same as it was in the twenties. If you define "money supply" as currency in circulation and demand deposits in banks, but excluding the time deposit in banks—that is, that which actually is used as a means of payment—then the ratio is somewhat higher today than it was in the twenties. It is down from what it was just after the war, when conditions were quite inflationary.

Senator FULBRIGHT. What is the relationship for 1937? Do you have that?

Mr. YOUNG. I do not have it computed by demand deposits and currency alone. I have it computed by the gross money supply. And it is down from what it was in 1937. The ratio in 1937 on that basis was .63, and at the present time it is .53. In comparison with 1920, when conditions were quite inflationary, you will recall, the ratio was .43. And today it is .53.

Mr. MARTIN. I might interject, Senator, that I am not a believer in the quantitative theory of money alone. I believe that the velocity of money has a lot to do with it, and I doubt if you can take past history of variations in the money supply and do anything more than make casual observations with respect to it. It has got to be related to the current situation, and we work on this weekly, at least. Mr. Young and his people work on it daily. But we have got to realize that there is no formula or no means of gaging what the adequacy of the money supply is, other than as it unfolds from a weekly or monthly picture.

(The figures requested by Senator Fulbright, relating to demand deposits and currency in circulation to gross national product, and the data relating to the velocity or turnover of demand deposits, referred to by Chairman Martin, are given for the period 1919–53 in the table below:)

Relationship of the money supply to total national product and the annual rate of turnover of demand deposits, 1919–53.

Year	Ratio of demand deposits and currency to gross national product	Annual rate of turnover of demand deposits	Year	Ratio of demand deposits and currency to gross national product	Annual rate of turnover of demand deposits
	Percent	*Times*		*Percent*	*Times*
1919	26	36	1937	34	22
1920	27	37	1938	35	20
1921	29	32	1939	37	19
1922	29	31	1940	38	19
1923	27	33	1941	36	19
1924	27	32	1942	33	18
1925	27	33	1943	37	17 16
1926	27	34	1944	38	16
1927	27	36	1945	44	15
1928	27	38	1946	50	15
1929	25	41	1947	47	17
1930	28	34	1948	42	18
1931	31	29	1949	42	17
1932	35	24	1950	38	19
1933	34	22	1951	35	20
1934	33	22	1952	35	20
1935	35	22 23	1953	34	21
1936	35	22			

NOTE.—Ratio of demand deposits adjusted and currency outside banks as of June 30 to gross national product for calendar years. Turnover of demand deposits at member banks at leading centers outside New York City. Turnover data not strictly comparable over entire period because of two changes in series.

Senator FULBRIGHT. Mr. Chairman, one last question. I noticed on page 6 that you mentioned price supports, apparently with some approval. Do you really believe that price supports have made contributions to the stability of our country? I am thinking of agricultural price supports.

Mr. MARTIN. Yes, I think they have.

Senator FULBRIGHT. Do you think they ought to be continued?

Mr. MARTIN. I am no expert on price supports. I favor the freest market that you can have, and, of course, price supports are subject eventually to the law of supply and demand just like everything else.

Senator FULBRIGHT. You say, "With price supports a special factor in the stability of the farm sector." I was a little surprised, with your being such a free trader, at your giving that word of approval. I wonder if you think they have been a special factor in the stability of the farm sector.

Mr. MARTIN. In the sense I am using it there, I do not think that there is any question that they have been a special factor.

Senator FULBRIGHT. Do you think it would be all right to abolish price supports?

Mr. MARTIN. I think all changes in financial progress have to be made on a gradual basis. When we unpegged the Government securities market, we did not just throw the market to the wolves.

Senator FULBRIGHT. You think there should be a gradual abandoning of the price supports, then?

Mr. MARTIN. My ultimate hope would be that there would come a time when we would not have any price supports.

Senator FULBRIGHT. That is what I want to know.

Thank you, Mr. Martin.

I will not take all the time of the committee, Mr. Chairman.

Chairman WOLCOTT. Did you get what information you desire?

Senator FULBRIGHT. I got part of it. I do not want to monopolize the witness.

Chairman WOLCOTT. I mean, on those figures.

Senator FULBRIGHT. I would like to have that completely made a part of the record for our information, although I grant that it is not the final and only factor, but I think it is a factor.

Mr. YOUNG. We have this chart here, which we will put in the record, on the relationship of the money supply to the total product.

Chairman WOLCOTT. Without objection.

(The chart referred to will be found on page 119.)

Chairman WOLCOTT. Are there further questions?

Mr. Talle?

Representative TALLE. Mr. Martin, it is true, is it not, that during the war years the balance sheet of a bank typically showed two main items on the left side; cash and Government issues?

Mr. MARTIN. Yes.

Representative TALLE. They were the two outstanding items, which, of course, made the banks highly liquid, because the banks were carrying principally short-term obligations. Now, the normal thing for a bank balance sheet is to show a close relationship between loans and discounts on the left side and deposits on the right; that is correct, is it not?

Mr. MARTIN. That is correct.

Representative TALLE. But the loans and discounts item in commercial banks was very low comparatively and Government issues very high during the war years. Is it not true that as we move into a peace economy, there will be a relative decline in the Government issues and a rise in the loans and discounts, if the banks serve their home communities properly?

Mr. MARTIN. I think the liquidity position of the banks is strong.

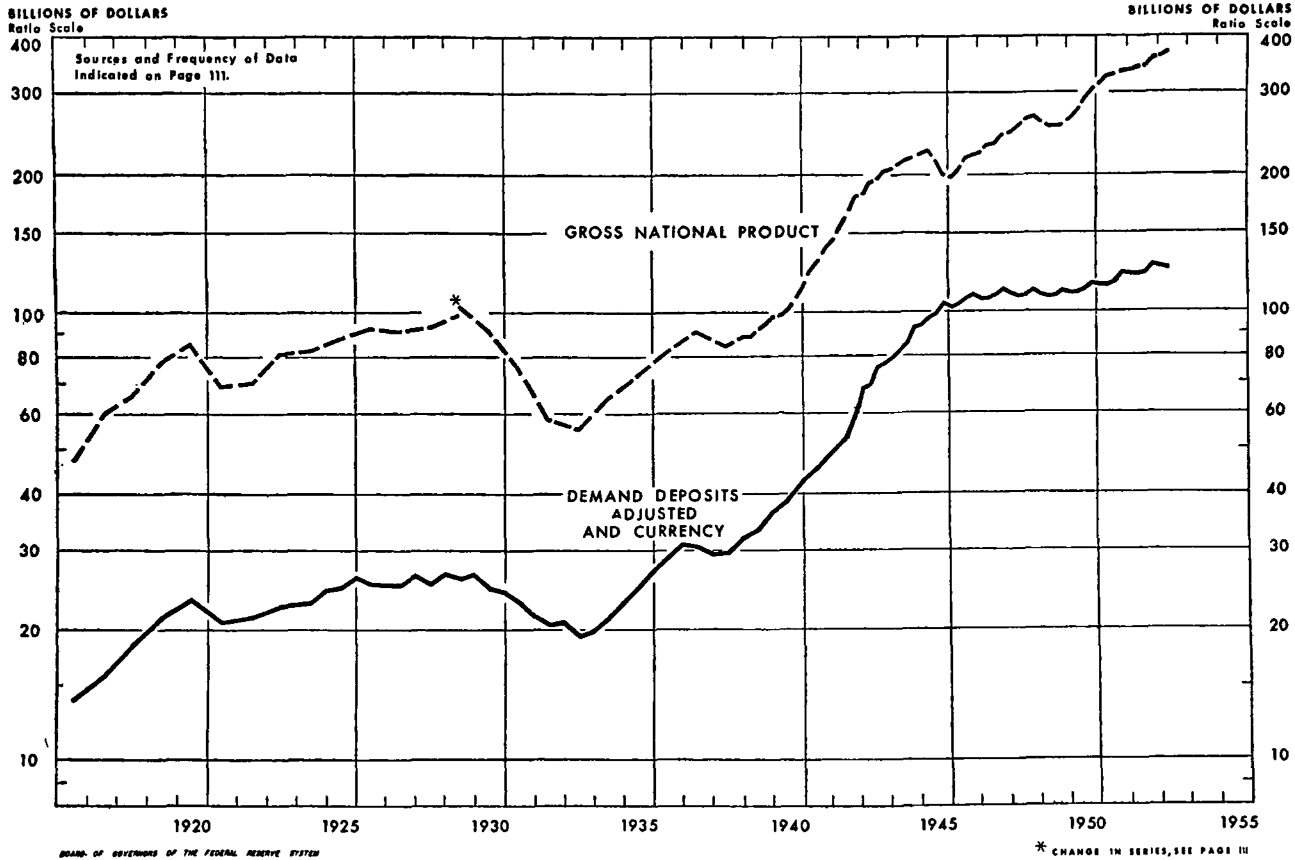
Representative TALLE. I do, too.

Mr. MARTIN. And I think that is one of the encouraging factors here, because we have followed this situation very carefully to see whether there are danger spots in the economy, of a liquidity nature, and we have not found any that alarm us at the present time.

Representative TALLE. Let us recall that it was necessary for the Congress to pass legislation which permitted Federal Reserve notes to be backed by less gold than formerly and a large percentage of Government bonds in lieu of eligible paper. This fact removed expansion and contraction interplay that was contemplated when the Federal Reserve Act was enacted.

Now, what I am getting to is that as we move into a peacetime economy, the loans and discounts item should rise, and for that reason,

GROSS NATIONAL PRODUCT AND DEMAND DEPOSITS ADJUSTED AND CURRENCY



eligible paper could again become a larger part of the backing for our money than has been true since World War II began. Eligible paper permits expansion and contraction. Government issues tend to remain fixed. If this elasticity is restored money supply will be pretty well adjusted to business activity as it goes up and down.

Mr. MARTIN. There is need for general reeducation on that. I think you make a very good point. I will give you an illustration. At one point in the last couple of years a distinguished southern banker came to me because he wanted to know if we would discount cotton paper. And I said to him, "Why, of course. That is what we are in business for." He had been discounting Government bonds for so long during the war period that he had begun to wonder whether we were there to perform the function that we were established to perform.

Now, that is one of the changes that takes place, and I might cite another interesting comment to me, that in a noted eastern university, on an examination, a student, who said that the discount rate was a valuable tool in the arsenal of the Federal Reserve Board powers, was marked wrong by his professor, who noted, "Archaic; of no use." And this was at a time when discounts had risen to over $2 billion.

Representative TALLE. Those are remarkable illustrations. Originally eligible paper was paper that grew out of industrial, agricultural, and commercial loans. But we got away from it during the war period.

It seems to me as we continue in a peacetime economy, we can get back to what the Federal Reserve was originally intended to do. I recall during World War II Chairman Eccles said there was not more than $9 million of eligible paper.

Checks against demand deposits are of course our principal means of payment—and elasticity can be had through changing reserve requirements.

Do you not think that as we move forward in peacetime economy, money supply and productive activity will move forward together in a satisfactory ratio?

Mr. MARTIN. I think we have a sound, elastic currency today, and that we have the authority to create reserves in a proper way and to contract them in a proper way.

Representative TALLE. I think that you have done a service in what you have said in this paper. I certainly agree with it. And what I believe we often overlook is the factor of time. We cannot suddenly shift from a war economy to a peace economy. After years of activity in the production of war materials, we cannot overnight shift to making goods for civilian uses. A little patience, I think, is necessary as we make this tremendous shift from high war production to peacetime production. The time element is important.

Mr. MARTIN. I agree.

Representative TALLE. Thank you.

Chairman WOLCOTT. Mr. Martin, I am going to ask a general question so that you will have a lot of latitude in answering it. It has come to our attention that some of the economists of the Nation believe that we would be better off if we did not have our gold supply, because the gold supply is of no value whatsoever. Do you want to comment upon the part that gold plays in our economy?

Mr. MARTIN. I think gold is a very satisfactory base for a currency, provided we do not——

Chairman WOLCOTT. Do you stress the fact that it is being used as a base for our currency?

Mr. MARTIN. I think there is no question of it. That is why there have been a number of people who think that we have an inadequate gold supply for the money of the world, but I think it is being used quite effectively. At one period, we had free gold markets abroad, where the price of gold went up to $40, $42, or $50 an ounce, and now it is down to about $35 an ounce again, and European countries, as I have commented before, have increased their gold and dollar holdings immensely.

Now, I do not know what our ratio is. Do you know what our ratio is, offhand, Mr. Young? It is about 47 percent. That would be my guess at the present time.

Mr. YOUNG. Probably 47 percent.

Mr. MARTIN. But we ought not to ignore the fact that you have got to have some basis, some relationship on which to base your reserves. And I can think of no more satisfactory base than gold. You could do it with other things, but I still think that gold is traditionally and practically as effective as anything we could use.

Chairman WOLCOTT. The reason I brought the subject up was not in connection with the convertibility question. There is growing thought apparently in the United States that gold plays no part in the stability of our currency or of our economy. As an example of that, there came to my attention just a short time ago, the fact that a professor of economics had advised his class that we would be better off if we liquidated our gold holdings and converted them into cash and used it to pay the national debt.

Mr. MARTIN. I disagree with that economist.

Representative TALLE. Mr. Chairman, will you yield to me just for a moment?

Chairman WOLCOTT. Mr. Talle.

Representative TALLE. Only a very small portion of the gold at Fort Knox is what you might call free gold, is it not? In effect, all of it is pledged?

Mr. MARTIN. Well, all of it is included in our gold total. What is the total? It is about $22 billion or $23 billion.

Representative TALLE. With most of it earmarked, is that right?

Mr. MARTIN. Practically all of it is included in our reserves.

Mr. YOUNG. The bulk of it is pledged against the issuance of gold certificates. And the reserves of the Federal Reserve System are held in gold certificates. But gold remains the base of the money supply, and places the ultimate limit on what the Federal Reserve can do. That is, the gold reserve ratio of the Federal Reserve System of 25 percent, or, more precisely, the gold certificates reserve ratio is a limiting ratio. But the certificates held by the System are readily convertible into gold when the System needs gold for purposes of making gold available to foreign monetary authorities for international payments.

Representative TALLE. There is a lot of gold there, but there are claims against it? In other words, it is not free, to be used for other purposes?

Mr. YOUNG. It is not free. It is pledged against gold certificates which have been issued to the Federal Reserve System.

Representative TALLE. How about the stabilization fund? Is that free gold?

Mr. YOUNG. The gold in the stabilization fund and in the General Fund Account of the Treasury, which is in the neighborhood of a half billion dollars-plus, is free gold.

Representative TALLE. That is actually all that is unpledged?

Mr. YOUNG. That is all that is unpledged.

Representative TALLE. I want to bring that out, because many people think that the gold in Fort Knox is just lying there and is completely useless and is serving no purpose.

Mr. MARTIN. That is not correct, because our deposits and note liabilities can not exceed, without payment of a penalty tax, four times that amount unless the Congress gives us more authority than we have at the present time.

Representative TALLE. Thank you.

Chairman WOLCOTT. Federal Reserve notes at the present time have to be backed up with at least 25 percent of gold.

Mr. MARTIN. That is correct, sir.

Chairman WOLCOTT. We assume, of course, that the Federal Reserve has or is developing a policy with respect to the expansion of the money supply. Is that in such form that you might be able to give us briefly an outline of your policy in that respect? I bring this up, because you may desire to comment upon some of the criticism of the American monetary policy abroad. One foreign economist puts in that we are headed for a depression because we have not an adequate money supply.

Mr. MARTIN. I do not think you can measure the money supply in those terms precisely, as I have already commented. But it might be well, I think, for me just to comment on the period of the spring of last year, when there were differing judgments, I am sure, about the general condition of the economy. Some people would have said that it was inflationary; some people would have said that it was deflationary. That is always a matter of judgment. But I, in retrospect, looking back at that period, think we made a miscalculation, not in terms of technical factors in the money supply, but in terms of the intangibles of psychology, in the expectations of people as to what was to come, rather than in the actual facts of what the situation was.

I have reviewed that policy. It has been reviewed in the Economic Report. It has been reviewed in a number of places, and it will be reviewed in our Annual Report, shortly, again. But what actually happened in the spring was that we saw a tightening beyond what we could have anticipated on the basis of technical factors. I think our technical judgment was sound. I think our measurement of the psychological intangible forces in the money supply was unsound. When we realized that, we corrected the situation as promptly and as vigorously as we could with the tools at our disposal.

The reason I review that in relation to this question is that I think it is important for us to realize that there are certain factors in the money supply that have to be adjusted at every point. There is the need in the Treasury for financing. We have to consider that. It is one of the problems.

There is also the growth factor in the economy, and as to "growth" there has been a lot of talk about 3 percent or 4 percent as being an approximate growth figure. I do not think you can be committed to any mechanical formula for growth. You can take a given figure at a given time, and there has been some publicity given to us because we did use in our spring projection a figure of 3 percent, which got out to the press. There is no harm in its getting out, but that does not mean that we will follow that particular percentage at another time.

We assumed that with the growth in population that was occurring in this country, and with the level of activity that there was, a figure of 3 percent was a fair approximation. On population, I should like to cite the figures that were given to me by one person, that in one area of southern California we were having an increase of about 1,000 people a day. That would be a new city of 7,000 a week, with schools and churches and all the other things. You need additional currency for that sort of a community. Now, of course, there may have been a decline some other place in the country offsetting it, but certainly there has to be some allowance for growth of all types, both in the level of industrial activity and the growth of the population and in the needs of various types of business that operate different ways.

All of these are factors affecting the money supply.

So we take into account some growth factor, and the needs, of the Treasury and what we believe to be the seasonal requirements of business. How you project seasonal needs after the period we have come through is most difficult. It is hard to know when a season begins and when it ends. Over the war and postwar periods, "seasonal" changed its nature a good bit in lead and lag factors. In our spring projection we assumed that it would not be unreasonable to have a seasonal requirement in relation to the activity of the economy of about the same expansion as occurred in 1952.

As all of you know, that did not occur. But our projection of the money supply was based on the belief that if we supplied what we believed to be, not precisely, but within limits, a normal flow of money to the economy, that interest rates would tend to go up, or increase; if business improved, and the demand for credit increased; that interest rates would stay about stable if business stayed about stable, and that there would be a tendency for interest rates to decline if business declined, and there was a lessening in the demand for credit. The latter was——

Chairman WOLCOTT. Mr. Martin, we may assume, therefore, that the Federal Reserve has found it impossible to set up a particular formula by which would be created a static policy, but yours is a flexible policy to meet the day-to-day and week-to-week and month-to-month demands for expansion and contraction of the money supply?

Mr. MARTIN. That is correct. We have to look at both the quantitative factors and the qualitative factors, that is, all of the other factors in the money supply, and do the best we can. And I would simply make one additional comment that I make frequently on this, namely, that I think humility is one of the keys to successful credit and monetary policy. If we should become convinced that we have a formula which answers all of these problems you gentlemen, I think, would have a right to become somewhat worried about our activities.

Chairman WOLCOTT. Do you believe that one can have confidence in the stability of the American economy to the point where there would be no need for fear by foreigners of the likelihood of the American economy collapsing because of the policy pursued by the Federal Reserve Board? You have instead the powers to prevent just that thing?

Mr. MARTIN. We will do the very best we can, Mr. Chairman. That is the only comment I can make on that.

Chairman WOLCOTT. Mr. Patman?

Representative PATMAN. You mentioned about gold being so necessary. If we were to go to Fort Knox and make an investigation and discover that all the gold had gone, and there was none there at all, it would be terribly shocking, but how much would that affect the value of the money that can be used for the payment of debts and taxes?

Mr. MARTIN. I think it would have quite an effect on it, Mr. Patman.

Representative PATMAN. In what way? Would it affect you when you went to the store to buy groceries? The grocery man could use the money he gets to pay his taxes and his debts, and make other purchases and replenish his inventory.

Mr. MARTIN. Money is a medium of exchange and a standard of value, as you will agree, and it also has a basic element in it, which is confidence. Since we have to have some relationship with respect to currency and money and credit, if you take away the base of that currency, you can change the basis of confidence.

Representative PATMAN. You have confidence, though, when you know you can use it to pay your taxes and your debts. Doesn't that give you tremendous confidence in the money that you are getting?

Mr. MARTIN. Well, if you do it by fiat, yes.

Representative PATMAN. I am not talking about fiat. I am just talking about the actual situation. In fact, when I noticed that Russia was selling her gold by the ton to England a while back, I just wondered if that was notice to us in a way that Russia was "jumping the gun" and going to consider that gold was outmoded as a base for currency in the future, and unload her gold on the West.

Mr. MARTIN. I would not put that interpretation on it. I would put the interpretation on it that Russia has found that nothing else will provide her with the consumer goods that she needs, because her exports have not been successful in acquiring foreign exchange, or because she has decided that she wants to stake everything on armaments, and she is not going to worry about the future, and so she is going to use her gold to get what she needs in anticipation of dropping an atom bomb or striking at us.

Representative PATMAN. Do you have any idea how much gold Russia has?

Mr. MARTIN. No, sir, I do not.

Representative PATMAN. In view of the fact that we know that Russia has used millions of people, slave labor, in the mines, is it reasonable to suppose that they have an enormous gold supply?

Mr. MARTIN. I think they have quite a bit of gold, but how much, I do not know.

Representative PATMAN. I want to ask you a few questions, Mr. Martin. Did you believe that inflation constituted a threat to the economy in December 1952?

Mr. MARTIN. Yes, I did.

Representative PATMAN. You thought inflation was a threat to our economy in 1952, in December?

Mr. MARTIN. I believe that it was. I had some doubts about how potent the force was, but there, as always, an element of judgment enters. There was a lot of speculative enthusiasm, as I pointed out in my statement here that was engendered during that period, and its reflection was in inventories. We viewed with considerable alarm the increase in inventories in the last part of 1952 and the early part of 1953. Now, as we approached January and February of 1953, and these inventories were rising, combined with speculative enthusiasm, there may have been some people who were absolutely certain that deflation was the problem, and not inflation. In my judgment, we were facing there a bubble on top of a boom that called for a policy of restraint at that juncture. I believe that everybody is entitled to his opinion and judgment, and I believe that if that bubble on top of the boom had gotten considerably larger, we would be having much more serious difficulties today than we are. That is purely a matter of judgment.

Representative PATMAN. What was the course of yield on Treasury bills, Government bonds, and corporate bonds from January to November of 1952? I mean, the course; the trend.

Mr. MARTIN. It was up.

Representative PATMAN. From January to November 1952? That is, the trend in yield.

Mr. MARTIN. I do not have the figures on it, Mr. Patman.

Representative PATMAN. Suppose you put that in the record, then, Mr. Martin.

(The information referred to follows:)

Security yields, January–December 1952

	U. S. Government securities (taxable)					High grade municipal [4]	High grade corporate [5]
	3-month bills		9–12 month issues [1]	3–5 year issues [2]	Bonds (long-term) [3]		
	Market yield	Rate on new issues					
1952—January	1.57	1.688	1.75	2.08	2.74	2.10	2.98
February	1.54	1.574	1.70	2.07	2.71	2.04	2.93
March	1.59	1.658	1.69	2.02	2.70	2.07	2.96
April	1.57	1.623	1.60	1.93	2.64	2.01	2.93
May	1.67	1.710	1.66	1.95	2.57	2.05	2.93
June	1.70	1.700	1.74	2.04	2.61	2.10	2.94
July	1.81	1.824	1.89	2.14	2.61	2.12	2.95
August	1.83	1.876	1.94	2.29	2.70	2.22	2.94
September	1.71	1.786	1.95	2.28	2.71	2.33	2.95
October	1.74	1.783	1.84	2.26	2.74	2.42	3.01
November	1.85	1.862	1.89	2.25	2.71	2.40	2.98
December	2.09	2.126	2.03	2.30	2.75	2.40	2.97

[1] Series includes certificates of indebtedness and selected note and bond issues.
[2] Series includes selected note and bond issues.
[3] Beginning April 1, series includes all fully taxable, marketable bonds due or first callable after 12 years. Prior to that date, only bonds due or first callable after 15 years were included.
[4] Standard and Poor's Corp.
[5] Moody's Investors Service average of bonds rated Aaa.

What considerations led to the raising of the rediscount rate the 19th day of January 1953, the day before the President was inaugurated?

Mr. MARTIN. The discount rate and the discount window, had been in a virtual state of disuse for a period of a good many years. In the period of adjustment following the accord that was worked out with the Treasury, there was very little borrowing at the discount window. We had gradual process of reactivation of that aspect of our work. Now, by the end of 1952 and early 1953, the market rate on bills was out of line with our discount rate. It had been out of line for some time. This was a period of market adjustment. During the fall of 1952, you will recall that the Treasury in its financing moved its rate up from 1⅞ percent to 2 and 2⅛.

This took some courage and some intelligence and some handling on the part of Secretary Snyder. To have injected into that situation an increase in the discount rate, although the discount rate was out of line as an effective instrument, would in my judgment have been a mistake. Now——

Representative PATMAN. Secretary Snyder did not have anything to do with the rediscount rate, did he?

Mr. MARTIN. I was trying to point out to you that we try to work as closely with the Treasury as we possibly can.

Representative PATMAN. I thought you declared your independence in March 1951.

Mr. MARTIN. Mr. Patman, the independence of the Federal Reserve System rests upon a recognition that the Treasury and the Federal Reserve have the same objectives. We may have differing judgments from time to time, and as equals we should stand up to each other and point out what those differences are, and at some point, perhaps, compromise them. That is the strength of our system.

But our independence is not a matter of flaunting the Treasury, or vice versa.

Representative PATMAN. In other words, you are doing what Mr. Snyder said before our joint committee in March 1952; you are cooperating. He said that the accord meant cooperation, you were cooperating with the Treasury.

Mr. MARTIN. Mr. Snyder, in the answers to your excellent questionnaire indicated his belief that that was desirable and necessary, and his belief in the independence of the Federal Reserve System. Secretary Humphrey, on taking office, likewise stated his view to be similar in that respect.

Representative PATMAN. Do you agree with Mr. Burgess, that the Federal Reserve should be the primary stabilization agency in Government?

Mr. MARTIN. Yes, I think it should be.

Representative PATMAN. All right. Do you believe that the primary aim of Federal Reserve policy should be the attainment of stability in the price level?

Mr. MARTIN. I think that we have to have as stable conditions as it is possible to have. I think that is one of the necessities——

Representative PATMAN. With reference to price levels, Mr. Martin.

Mr. MARTIN. I do not think exact stability is ever possible.

Representative PATMAN. I did not ask you that, Mr. Martin. I asked you, Do you believe that the primary aim of Federal Reserve policy should be the attainment of stability in the price level?

Mr. MARTIN. No, I would not say it is the only aim of the Federal Reserve.

Representative PATMAN. I did not ask you if it was the only one. I asked you if it was the aim.

Mr. MARTIN. It is one of the aims, yes.

Representative PATMAN. It is one of the aims. Would you say it was a major aim or a minor aim?

Mr. MARTIN. It depends on the circumstances.

Representative PATMAN. I see. Do you believe that a central bank can effectively bring down interest rates on real-estate mortgages, on short-term loans to business, or on commercial and personal loans in areas away from metropolitan centers, and particularly in rural areas?

Mr. MARTIN. Will you read that question again?

Representative PATMAN. Yes.

Do you believe that a central bank can effectively bring down interest rates on real-estate mortgages, on short-term bank loans to business, or on commercial and personal loans away from metropolitan centers, and particularly in rural areas?

Mr. MARTIN. We have an economy that is very difficult to pinpoint because it is so large. That is one of the interesting things about our Federal Reserve System, that instead of having a central bank with branches, we have set up a regional system with 12 individual banks and 24 branches throughout the country coordinated by a Board of Governors here in Washington.

Representative PATMAN. Mr. Martin, I understand what you are saying, but in practice, what major power does an officer in a regional bank have? Just saying that he has power is not a major power. Take the directors of the Dallas bank, the president and the chairman of the board, and others, what do they have the power to do that is important, that does not have to be passed on by the Board of Governors?

Mr. MARTIN. That is in the interest of coordination. They can be quite effective in recommending a change in the discount rate.

Representative PATMAN. Just recommending? It is a sort of advisory group, then?

Mr. MARTIN. No, I think it is more than that, because in this interesting device of the Open Market Committee, the presidents on the Open Market Committee are coequal with the members of the Board and have an equal voice.

Representative PATMAN. I know. But you are talking about something else, Mr. Martin.

Mr. MARTIN. But it is the same thing.

Representative PATMAN. You see, that is only after one of their presidents gets on the Open Market Committee. You see, there are just five of them. Now, there are 12 on that committee, and they stagger the selection, except the New York bank, do they not?

Mr. MARTIN. That is a matter of rotation.

Representative PATMAN. I will repeat my question. Name me one important function that the officers and directors of a regional Federal Reserve Bank perform that is not subject to the confirmation or overruling by the Board of Governors of the Federal Reserve System, just one. Just name me one.

Mr. MARTIN. The discount rate is one that I named. They pass on the individual discounts——

Representative PATMAN. I know. But you pass on that. You have to confirm it, do you not?

Mr. MARTIN. No. I am talking about the use of the discount window. They come in——

Representative PATMAN. That is a slide-rule deal. That is you adopt it and then have your rules and regulations for carrying it out, is it not?

Mr. MARTIN. No. I am talking about, when a member bank goes to the Dallas bank to discount—we do not even know about the discount transaction.

Representative PATMAN. I am talking about a major function. Last year your earnings were only $15 million on rediscounts, when your earnings in all were about $550 million, I guess, so that it was not a major function, was it?

Mr. MARTIN. What was not a major function?

Representative PATMAN. Rediscounting.

Mr. MARTIN. I think it was a major function.

Representative PATMAN. You think it was a major function?

Mr. MARTIN. Certainly.

Representative PATMAN. Well, they did not have any major operations, last year, according to the reports that I saw.

Mr. MARTIN. Are you measuring it on a dollars and cents basis?

Representative PATMAN. Measured in any way, Mr. Martin.

I have often made this statement, and I will see if you agree with me.

The Federal Reserve System was set up on a regional basis just as you said a while ago, but the 1935 act completely changed it. Now all the power that the regional bank and directors formerly possessed are lodged in the Board of Governors here in Washington. For all practical purposes, these enormous buildings throughout the country, that is the 12 banks and the 24 branches, are used only to clear checks, and similar operations; in other words, for housekeeping duties. The officers in charge of them have no important duties to perform that are not passed upon by the Board of Governors. How incorrect is this statement if it is incorrect at all?

Mr. MARTIN. I think it is substantially incorrect. I think that the individual regional banks and their board of directors perform a great many more functions besides clearance and collection of checks, and I think that they are brought into contact with the Board——

Representative PATMAN. In advisory roles and recommendations. I agree that they have the power to recommend and advise, but I am talking about important functions that they can do themselves without reference to you.

Mr. MARTIN. Well, I will be glad to write a paper, if you would like——

Representative PATMAN. I wish you would, Mr. Martin.

Mr. MARTIN. If you will refer, Mr. Patman, to the very good questionnaire sent out by the subcommittee of which you were chairman you will find that I have made quite an answer on that point.

Representative PATMAN. All right. If you can supply it, it will be all right with me.

Now, I want to insist on an answer to this question, which I do not think you have answered yet. But if you will expand on your answer, I will appreciate it. And then, I will go on to the next question.

(The information referred to follows:)

This question is answered in the following excerpts contained in the reply to question 9 of the questionnaire submitted to the Chairman of the Board of Governors of the Federal Reserve System by the (Patman) subcommittee of the Joint Committee on the Economic Report, 82d Congress, 2d session, under the general subject Monetary Policy and the Management of the Public Debt; Their Role in Achieving Price Stability and High-Level Employment:

"Although these developments have modified the role of the boards of directors of the Federal Reserve banks in the formulation of System credit policies, they are still charged by law with important tasks. Under the provisions of section 14 (d) of the Federal Reserve Act, they are authorized to initiate changes in discount rates. They also have the responsibility for administration of the discount and lending operations of the Reserve banks. Section 4 of the Federal Reserve Act requires that the boards of directors shall administer the affairs of the Reserve banks fairly and impartially and without discrimination in favor of or against any member bank and, subject to applicable law and the orders of the Board of Governors, the banks may extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard to the claims of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. Each bank is required to keep itself informed of the general character and amount of loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for speculative or other purposes inconsistent with the maintenance of sound credit conditions. Section 13b of the Federal Reserve Act authorizes the Reserve banks, subject to the regulations of the Board, to extend credit in exceptional circumstances to established industrial or commercial concerns for working capital purposes, and the directors have responsibility for the supervision of these operations. Under section 12 of the Federal Reserve Act the boards of directors also appoint the members of the Federal Advisory Council which consists of a representative banker from each of the 12 Federal Reserve districts to advise and make recommendations to the Board of Governors on matters of interest to the System.

"The contribution that the Reserve bank and branch directors are in a position to make to the execution of national credit and monetary policies does not end with these specific responsibilities. They are outstanding men in their communities who are in close contact with banking and business conditions in their respective districts. They include successful opertors of banks, manufacturing and processing concerns, farms, department stores, and various other enterprises, as well as men prominent in the field of education or the law.[1] Thus they are able to bring to the deliberations of the System the benefit of broad experience and training at a very high level and to perform an essential service in supplying judgment and advice on the credit problems of their respective districts and on other important problems confronting the System as a whole. In the formulation of national policy, the Board and the Open Market Committee have a unique advantage in being able to obtain information on conditions in their respective districts directly from the more than 250 directors who are representatives of diverse fields of endeavor in all sections of the United States. Though the directors may not make their views prevail on national credit and monetary policy, it is their duty to inform the Board and the Open Market Committee on national credit developments as they see them from their varying vantage points and to execute in their districts fairly, impartially, and as effectively as possible the credit and monetary policies decided upon by the System.

"When a System policy has been determined, Reserve bank directors are in a position and have a duty to interpret that policy to interested people in their respective districts. It is important that System policies and the reasons therefor be understood by businessmen, bankers, and others. The greater the understanding, the greater is the likelihood that the sound features of such policies will be

[1] Of the 105 men who on December 31, 1951, were head office directors of the Federal Reserve banks, 35 were bankers, 31 were in various kinds of manufacturing, 9 were farmers, dairymen, or livestock men, 6 were department-store operators or distributors, 7 were leaders in education, 3 were oil producers and refiners, 4 were lawyers, 2 were public-utility executives, 1 was associated with an agricultural cooperative, 1 was a business executive, and the remaining 6 were engaged, respectively, in engineering and contracting, publishing, real estate, shipbuilding, importing and exporting, and as a representative of a national farm organization. A list of the directors of the Federal Reserve banks and branches and their principal business affiliations is attached (table II, p. 254).

accepted and supported and, conversely, that defects in such policies will be pointed out. For these and other reasons, it is important that men of competence and broad experience continue to serve as directors of the Federal Reserve banks.

"The branches of the Federal Reserve banks have been established for the purpose of providing more effective services to member banks in their respective areas than would be possible if the branches did not exist, and the boards of directors of the branches were provided by law for the purpose of making these localized services as efficient and effective as possible. The branch directors also have a duty to contribute advice on current credit trends and to promote understanding of system policies in much the same manner as directors at the head offices.

"Although the Board of Governors is authorized to exercise general supervision over the Reserve banks and is required to approve the appointment of the president and first vice president of each bank and the salaries of all officers and employees, the primary responsibility for selection of officers, for day-to-day operation of the banks and for long-range planning of Reserve bank operations in a growing economy, rests under the law with the boards of directors. Having had broad business and professional experience they are in a position to give informed judgments on problems of organization, management, and operation.

"The procedure followed in the preparation of budgets and the control of expenses of Federal Reserve banks is described in the reply to question E-24. Here, it is of interest merely to point out that the boards of directors of the Reserve banks, in passing upon the Reserve bank budgets, are able to bring to bear their business and professional experience in holding down costs in a competitive economy. They also are aware of the fact that, although the Reserve banks are not operated for profit and their earnings are large at the present time, there is every reason for keeping expenses at a minimum consistent with the banks' operating and other responsibilities.

"A similar situation exists with respect to the selection of officers and their salaries. The directors have responsibility for the internal alinement of officers' responsibilities and, operating usually through a salary or personnel committee, give special consideration to this problem and to the salaries that should be paid. Again, being cognizant of the need for efficient management in their own businesses, their salary recommendations reflect judgments based on high-level experience and training.

"In each Reserve bank there is an auditing committee of the board of directors, and the auditors of the bank report directly to this committee or to the chairman of the board of directors. The auditing department works closely with the Board's examiners who make an examination of each Federal Reserve bank once each year and determine the adequacy of audit procedures, so that there is every assurance that the authorized expenditures of the Reserve banks are adequately controlled and in accordance with authorizations.

* * * * * * *

"Administration of a Reserve bank as an institution to supply currency and to perform check clearing and other service functions, or as fiscal agent of the United States in carrying out duties such as the issuance and retirement of Government securities, is in itself a very responsible job, but it represents only a small part of the duties that the President is called upon to carry out.

"As chief executive officer, the president has responsibility under such directions as are given by the board of directors, for the executive operation of the bank. He makes reports to the board of directors with respect to all matters with which the directors are concerned. As a means of providing an opportunity to discuss policy and operating subjects, and achieving desirable standardization of operating and management policies, the presidents are organized in a Presidents' Conference which meets several times each year. The president of the Federal Reserve Bank of New York is a continuous member of the Federal Open Market Committee, which determines the open market policies of the System, and the presidents of four other Reserve banks serve on a basis of rotation as members of that Committee.[2] This and related responsibilities in the field of credit and monetary policy call for exceptional qualifications.

"With these responsibilities, the presidents of the Federal Reserve banks occupy an important position in the organizational structure of the Reserve System and their duties go far beyond efficient direction of the operating func-

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[2] The role of the Reserve bank presidents in System credit policy is also discussed in the replies to questions C-16, C-17, and C-18.

tions of the Reserve banks. They are required to be closely in touch with banking and credit conditions in their districts, with the requirements of banks for reserves with which to meet the credit needs of their customers, and with the extent to which and the conditions under which such reserves should be supplied. As members or prospective members of the Federal Open Market Committee they are required to be fully familiar with the overall credit policies of the System and the actions that might be taken to contribute to economic stability and to enable the banking system not only to meet the everyday demands made upon it but demands growing out of emergency conditions such as exist at the present time."

In addition to this, the matter of Federal Reserve bank responsibilities was the subject of an address which I made on the occasion of the opening of the new building of the Federal Reserve Bank of Boston, Boston, Mass., on May 6, 1953. The following excerpts are taken from such address, a full copy of which is attached:

"Although the Federal Reserve banks sometimes are referred to as bankers' banks, that describes only a part of their function. The various services which the Federal Reserve banks perform for the banking community, such as supplying currency, transferring funds, and collecting checks, are an essential element in keeping the mechanics of modern commercial banking in step with the financial needs of a growing and changing private enterprise economy. But the overriding purpose of this Reserve System is to serve the interests of the general public in business, industry, labor, agriculture, and all walks of life.

"This institution is the fountainhead of credit—of the great bulk of our money supply. It is the medium for distributing the pocket money in daily use, but that is of subordinate importance. The ebb and flow of pocket money is determined by day-to-day needs of the merchant, the shopper, and all who use cash. Of far greater importance is the System's responsibility for creating or extinguishing credit. For credit—bank credit—is the lifeblood of our economy.

"The trusteeship to which I refer is carried out in the exercise of the System's responsibility for influencing the volume, availability, and cost of credit. The purpose is to see that, so far as Federal Reserve policies are a controlling factor, the supply and flow of credit are neither so large as to induce destructive inflationary forces nor so small as to stifle our great and growing economy. Now that is a very great responsibility. By its very nature it must be carried out in the interests of all of the people. And if it is not so executed then the country would demand and deserve a new and faithful trusteeship over the creation of credit.

* * * * * * *

"The Reserve banks are authorized to extend credit to each member bank with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture.

* * * * * * *

"The initiative in the determination of discount rates is placed by the Federal Reserve Act in the boards of directors of the respective Reserve banks—and this is a very important responsibility even though final determination of discount rates rests with the Federal Reserve Board. Similarly, the responsibility for granting or withholding loans to individual member banks is also vested in the directors and officers of the Federal Reserve banks. They must be the judges. They are on the ground and are presumed to be familiar with local conditions, as well as the state of the economy nationally.

"The Reserve Act, as I have said before, is an ingenious blending of public and private participation in a public institution created by the Congress to regulate the money supply. The ingenuity is exemplified, I think, in the composition of the boards of directors of the Reserve banks. They represent a broad cross section of industrial, business, banking, agricultural, and professional activities, both large and small—and they in turn are called upon to act in the national interest and not for the special advantage of any group or faction or section of the country.

"They have a duty, also, to foster a wider understanding of the role that monetary policy should play—what it can and what it cannot accomplish.

"The universal desire for orderly, steady economic progress, and a constantly improving standard of living, certainly cannot be achieved without flexibly administered monetary policy and action—with restraint on creation of excessive credit in a boom and a policy of liberal monetary ease when inflationary dangers no longer threaten stability."

EXCERPTS FROM AN ADDRESS BY WM. McC. MARTIN, REPRINTED IN FEDERAL RESERVE BULLETIN, MAY 1953 ENTITLED "FEDERAL RESERVE BANK RESPONSIBILITIES"

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The universal desire for orderly, steady economic progress, and a constantly improving standard of living, certainly cannot be achieved without flexibly administered monetary policy and action—with restraint on creation of excessive credit in a boom and a policy of liberal monetary ease when inflationary dangers no longer threaten stability.

The Reserve banks are authorized to extend credit to each member bank with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture.

Representative PATMAN. Do you agree that Government activities in the credit field supplementing the private banking facilities have been unduly excessive?

Mr. MARTIN. I do not think one can make a categorical answer to a question like that, because so much depends on the circumstances at the time.

Representative PATMAN. All right. Do you file an account of the operations of the Open Market Committee in your annual report with Congress?

Mr. MARTIN. We do.

Representative PATMAN. I have not checked this point but does it include their transactions by the day, or the week, or the month?

Mr. MARTIN. I do not know. I will supply that. I do not know whether that is specifically there. The policy records——

Representative PATMAN. Last year, for instance, about how much in transactions did this Open Market Committee handle, in the aggregate?

Mr. MARTIN. Oh, I would not know, offhand.

Have you any idea, Mr. Young?

Mr. YOUNG. It would be a good many billions, including replacement of maturing issues.

Representative PATMAN. A good many billions. I know that. I thought maybe you would have a rough idea. The open market is just what the name implies, I assume. You go into the open market and buy and sell and that must involve a lot of money.

Could you file a statement with the committee on that, last year, by the week or the month, or some other appropriate breakdown?

(The material referred to follows:)

Gross transactions in Government securities by the Federal Open Market Committee, January–December 1953

[In millions of dollars]

	Net change in Federal Reserve holdings	Market transactions (gross)						Special certificates purchased directly from Treasury (largest amount outstanding in month)	Exchange of maturing certificates, notes, and bonds
		Total		Outright transactions [1]		Repurchase agreements with dealers			
		Purchases	Sales	Purchases	Sales	Purchases	Sales		
January	−753.4	478.2	1,231.6		145.7	478.2	1,085.9		350.1
February	−68.3	242.9	311.2		35.3	242.9	275.9		3,886.9
March	−69.2	119.0	188.2		46.2	119.0	142.0	333.0	270.5
April	+74.0	551.5	477.5	75.5	75.5	476.0	402.0		
May	+366.3	780.4	414.1	225.0		555.4	414.1		281.3
June	+499.8	883.8	384.0	687.1		196.7	384.0	1,172.0	1,152.8
July	+217.5	355.5	138.0	245.5		110.0	138.0		503.0
August	+99.5	244.4	144.9	25.0		219.4	144.9		710.9
September	+171.5	817.9	646.4	263.7	17.7	554.2	628.7		1,398.2
October	+113.0	170.0	57.0	113.0		57.0	57.0		702.7
November	1,218.6	849.5	1,102.0	165.0	[2] 520.0	684.5	582.0		591.0
December	+820.4	2,801.6	1,981.3	375.0	50.0	2,426.6	1,931.2		7,978.4
Total	[2] −252.5	8,294.7	7,076.1	2,174.8	890.4	6,119.9	6,185.7	1,505.0	17,825.8

[1] Includes runoff of Treasury bills at maturity.
[2] Includes 2½-percent notes of December 1953, redeemed with gold certificates.

Mr. MARTIN. I will do the best I can on it, Mr. Patman.

Representative PATMAN. Do you have any rule in the Federal Reserve System prohibiting employees or officials from engaging in the purchase or sale of Government securities?

Mr. MARTIN. I do not know whether we have or not.

Representative PATMAN. Do you mean to say that a member of the Open Market Committee has the right to buy and sell Government securities individually or for a corporation?

Mr. MARTIN. I would certainly consider it a violation of their oath of office if they did.

Representative PATMAN. But you have no rule against it, nor for the employees?

Mr. MARTIN. I will have to look into that. I do not know whether there is any specific rule on the books against it, but I certainly would get rid of any employee that I found was engaging in such activities.

Representative PATMAN. Of course, it is considered unethical conduct. But I just thought maybe you had rules. Since you have taken the peg out from under the bonds, you know there is quite a fluctuation in these bonds now from day to day, sometimes as much as a half a point, is there not?

Mr. MARTIN. There have been fluctuations.

Representative PATMAN. And any inside knowledge of what is going to happen through the Open Market Committee would be worth a lot to people, would it not?

Mr. MARTIN. Misused, it could be unfortunate.

Representative PATMAN. I wondered if the Board had taken any precaution against things like that, in view of the large amount of transactions involving such huge sums of money daily. Just a little information in the way of a leak could mean a lot against the Government.

Mr. MARTIN. The Board is fully aware of that and that has been emphasized repeatedly at meetings of the Open Market Committee, and I am very glad to have you point that matter up, because we certainly do not want anything of that sort to happen.

Representative PATMAN. Mr. Martin, in the audits last year, 1953, what type of audits did you have of the Board of Governors and the 12 Federal Reserve banks?

Mr. MARTIN. I covered the audit question in the answer to your questionnaire, also, and as indicated——

Representative PATMAN. You did not. I beg your pardon. I am asking you for 1953.

Mr. MARTIN. Well, for 1953, we made our usual audits of the 12 banks——

Representative PATMAN. Who made the audits?

Mr. MARTIN. The audits were made by our force, but we employed the accounting firm of Arthur Andersen & Co., to go into one of the banks and review our procedures. They will be doing that periodically from year to year. And they have made a review of one of these audits. and the accounts of the Board were also audited by Arthur Andersen.

Representative PATMAN. By the same firm. And you have those audits now?

Mr. MARTIN. I have those audits.

Representative PATMAN. You have those audits; that is to say, the Board of Governors has those audits?

Mr. MARTIN. The Board of Governors, yes, sir.

Representative PATMAN. All right. Now, then, do you consider a private commercial bank a utility, Mr. Martin?

Mr. MARTIN. Yes, I consider the commercial banking system of the country a public utility.

Representative PATMAN. Of course, public utilities are subject to regulation, and the banking system is regulated, too. Do you feel that they have all the regulation they should have, or do you feel that they have more regulation than they should have?

Mr. MARTIN. I think they are properly regulated. I think that the general supervisory powers that there are—to speak only of the Federal Reserve System at the moment—effectively used, are sufficient regulation to protect the public interest.

Representative PATMAN. Suppose there is a dangerous trend that is noticeable in banking that is against the public interest. Whose duty is it to point that out to Congress? Is it your duty, the Comptroller of the Currency's, or the Treasury's, or would it be the FDIC? Who is on guard for the people and the Congress to alert the Congress to any dangerous trend that is showing up in banking?

Mr. MARTIN. To the best of our ability, we accept that responsibility.

Representative PATMAN. Have you done that in the recent past, the last 3 years?

Mr. MARTIN. We have called to your attention all of the factors that we thought warranted.

Representative PATMAN. You think it is your duty, then, to do it?

Mr. MARTIN. It is one of our responsibilities.

Representative PATMAN. I get many letters, from people about banking. Complaints come to me frequently that the trend in banking generally over the country in the last few years has been such as to make it very profitable for the officers and directors, but that the employees have not fared so well. I had some investigation made, as much as I could but still very little, and I found that the employees in banks do not in fact receive very much. The amount they receive appears to be low compared to what people in comparable industries and businesses would receive. Maybe I am mistaken about it, but that is the way I view it.

The last few years the banks have been loaded down with Government bonds. I know many banks that pay pretty good-sized dividends, but do very little locally. You know them, too, I am sure. They are not performing much local service.

When banks, although they have a charter which has been granted to them to render a local service to local people, and they are not too anxious to talk to people about loans because they have sufficient income from Government bonds and good paper, whose duty is it to point out such a trend to the Congress?

Mr. MARTIN. Mr. Patman, in the banking system of the country, I should think the people of the community would be up in arms if they are not finding their banking services useful, and the normal competitive process would begin to work, and there would be demand for another.

Representative PATMAN. I think so, too, Mr. Martin. I have seen communities where there were lots of complaints. I have been to those places. Yet when people complain, a short-term loan office goes in. They figure, "Well, the bank is right; it is loaned up," and they take the bank's word for it. They do not insist on trying to get consideration for a loan. But the little loan offices spring up all over.

Don't you think something should be done to cause such a bank to be more on the alert to render service to local people? Somebody should be available to make them more conscious of their public duty; do you not think so?

Mr. MARTIN. Well, maybe an attack once in a while is of some value, but I do not think that we can run all the banks of the country from Washington.

Representative PATMAN. Well, you are trying to do it, are you not?

Mr. MARTIN. No, sir. All we are trying to do——

Representative PATMAN. I always thought you were. I surely did.

Mr. MARTIN. I am certainly not.

Representative PATMAN. Well, I thought you had some supervision over them, though.

Mr. MARTIN. We accept the responsibility of general supervision. But we are not trying to run all the banks from Washington.

Representative PATMAN. You have examiners that go out, under instructions from the Board, do you not?

Mr. MARTIN. That is correct.

Representative PATMAN. Last May and June, or last April and May, did your examiners have any instructions to tell banks to be careful and not extend themselves too much on loans?

Mr. MARTIN. No, sir, they did not.

Representative PATMAN. And you are right sure that you personally did not talk to some New York bankers along that line?

Mr. MARTIN. I am absolutely certain.

Representative PATMAN. You did not?

Mr. MARTIN. I am absolutely certain. I made a talk in Boston, Mr. Patman, on May 6, on the role of the discount window, and I pointed out that the discount window was a privilege and not a right, that they had been borrowing through the discount window, and I questioned whether some of that was necessary or desirable or useful in terms of our overall monetary and credit policy. But I made no representation, and I so stated publicly on May 6, in which I criticized some people, which is not part of my job. But I made that speech openly. I made no talks to any individual bankers questioning them about their loans.

Now, the individual Reserve banks may have. Their officers and directors are in close contact with them. We are not operating here in Washington——

Representative PATMAN. The point that you made about the privileges of the discount window, giving them notice:

> Now, that is not a privilege or a right you can demand, but it is one that we can give you if we want to—

that was the same, was it not?

Mr. MARTIN. That is what it said.

Representative PATMAN. That itself was on the side of contraction, was it not, to let them know that they had better be careful?

Mr. MARTIN. I thought it was proper.

Representative PATMAN. It was not on the side of expansion, certainly. It was giving them notice that they had better watch out, that if you wanted to give them this additional credit, you would give it, and if you did not, you would not. Would you consider a warning of that type coming at that particular time on the side of deflation?

Mr. MARTIN. I do not think you can isolate that instance. That is one of the items that created the miscalculation that I was talking about.

Representative PATMAN. All right. I will not insist on further discussion of that point.

Before 1917, banks generally in the purchase of Government bonds only invested their capital structure in Government bonds, did they not; that is, before World War I?

Mr. MARTIN. I do not really know, Mr. Patman. I would have to check on that.

Representative PATMAN. I wonder if one of your aides there knows.

Mr. MARTIN. Your question is: What did the banks invest in before 1917?

Representative PATMAN. When did they commence the practice of investing heavily in Government bonds?

Mr. YOUNG. That came in World War I, sir.

Representative PATMAN. But before World War I, what was the practice?

Mr. YOUNG. There was a relatively small amount of Government securities outstanding.

Representative PATMAN. I understand that. But what was the practice of discouraging banks from investing in any amount of theii excess in actual capital structure?

Mr. YOUNG. I am unable to say. That would have been under the national bank supervision. I would not know about that.

Representative PATMAN. All right. Now, in 1933 the Congress put a little amendment into a banking act. I think it was done in a conference report. I looked it up one time, but my memory is not exactly clear as to when and how it was done. It was not discussed on the floor of the House and Senate, to the best of my recollection. It was simply put in a conference to report that the banks should not be allowed to pay interest on demand deposits, and there was some provision that after 2 years the Federal Government, the States and the counties and cities and political subdivisions could not accept interest on demand deposits, either. That was in 1933 as I am sure you remember. Before that time, the Government, when it had money to deposit, would receive 2 percent. Beginning about 1935, then, they did not receive anything and have not received anything since. It is the present policy of the Treasury to keep about the amount of 1 month's bills on deposit in the banks. That runs from $4 to $6 billion and the Government is not receiving anything for the use of that money. I want the banks to be profitable, I want them to be privately owned and I want them to make money, because they serve a good purpose in the community and we want to keep on encouraging them to do it. I do not believe in paying them for services they do not render, or just to give them a bonus or a subsidy or a handout, unless you make clear that is what they are getting.

Do you not think that the law should be changed to where the Government can at least get a low rate of interest to get the Government out of the ridiculous situation of permitting a bank to buy bonds, and after they buy the bonds, to keep the bonds and draw interest on them? They keep the money, and they lend out the money, and they get double pay that way. Do you not think that should be changed to where the Government could get interest on those deposits as they used to before 1935.

Mr. MARTIN. I would seriously question whether it should be changed. That has to do with the complicated handling of monetary relationships, and the Treasury is more competent than I am to comment on why they have worked out their system in that way. It could be worked out in a different way, but a lot of services and items and things have to be performed in there, all of which would have to be analyzed on a cost-price basis. It is like the clearance of checks, Mr. Patman.

Representative PATMAN. We will get to the clearance of checks. In the Federal Reserve Act of 1913, the way I construe that act, you should fix an interest charge—the Board of Governors of the Federal Reserve Board—to require the local banks, or the privately owned commercial banks, to pay for the cost of clearing those checks. Isn't that your understanding?

Mr. MARTIN. The history of that—I think you wrote me on that, and I think I wrote you a memo on that, which we would be very glad to put in the record.

(The information referred to follows:)

COLLECTION OF CHECKS BY FEDERAL RESERVE BANKS

Question has been raised whether it is the practice of Federal Reserve banks to make a charge for clearing and collecting checks for their member banks or whether they have ever made such charges.

In July 1916 under authorization of the Federal Reserve Board, the Federal Reserve banks put into effect a plan for clearing and collecting checks which provided for a service charge not exceeding 2 cents per item. As the System's functions developed, these charges were gradually reduced. At the close of the year 1917 the maximum charge was 1.5 cents per item. Early in 1918 some Reserve banks began taking up to 500 checks per month from each member bank without charge. As of July 1, 1918, the charge was eliminated entirely by action of the Board, acting upon a recommendation of the Reserve banks (1918 Federal Reserve Bulletin, p. 371; 1918 Annual Report of Board, p. 76). The charge has never been reimposed.

The following statement was contained in the Board's Annual Report for 1919, page 42:

"It should be recalled that during the year 1918 the service charge of from 1 to 1½ cents per item previously imposed by Federal Reserve banks to cover overhead and other costs of collection was abolished and the growth of the collection business during that year was due to a great extent to this fact."

The statutory provision governing this matter is contained in section 16 of the Federal Reserve Act, paragraph 14 (12 U. S. C. 360). It reads:

"Every Federal Reserve bank shall receive on deposit at par from member banks or from Federal Reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve bank, checks and drafts drawn by any depositor in any other Federal Reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. * * * The Board of Governors of the Federal Reserve System shall, by rule, fix * * * the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve bank."

This provision, which was contained in the original Federal Reserve Act and which has not been changed, was characterized by Carter Glass as "one of the most important provisions" in the Federal Reserve Act. He made this statement on December 22, 1913 (Congressional Record, vol. 51, pt. 17, Appendix, p. 563), in the course of his final speech on the bill, which became law the following day. Since he was the principal author of the bill and its chief exponent then and for many years thereafter, his statement was of importance. He went on to say:

"The provision, as it stands, will result in an immense saving to the tradespeople of the United States. It will eliminate the amazing wastefulness incident to many independent collection organizations by substituting one compact collection system. * * * I speak thus confidently only in anticipation of wise action by the Federal Reserve Board when appointed. If the Board will have the wisdom and courage to establish immediately a comprehensive and economical plan of bank clearings, it will be difficult to compute the advantages that this section of the currency bill will secure."

In view of the statement by Senator Glass quoted above, it is evident that the purpose of the statutory provision with respect to charges for services rendered by Federal Reserve banks in clearing or collecting checks was, not to require or make certain that such charges would be made, but on the other hand to provide a means by which such charges might be restricted or even eliminated if that were found to be practicable. This conclusion is consistent with the language of the law in directing the Board to fix the charge "which may be imposed" for the service of clearing or collection by the Federal Reserve banks.

The question has also been raised whether Federal Reserve banks charge the Federal agencies for the collection and clearing of checks.

The Reserve banks clear millions of checks drawn on commercial banks deposited by Directors of Internal Revenue and other Government officials, and for this service make no charge. The Reserve banks also handle millions of Government checks drawn on the Treasury, and, likewise, make no charge for this service. The Reserve banks perform without charge for the Government agencies every service with respect to the receipt, clearing, and collection of checks that they perform for member banks without charge. In the case of Government checks issued in punchcard form, the Reserve banks perform certain additional work formerly done by the Treasury. In connection with this work the Treasury furnishes the tabulating equipment and certain supplies.

In handling postal money orders the Reserve banks perform certain operations for the Post Office Department in addition to the clearing of the money orders, and they are reimbursed for that part of their expenses attributable to these operations not essential to the clearing. The Reserve banks also receive reimbursement from the Treasury covering expenditures incurred by them in operations known as fiscal agency operations, such as those in connection with the public debt and withheld taxes. However, they have never received reimbursement from the Treasury for depositary operations, which include the clearing of Government checks and checks drawn on commercial banks deposited by Government agencies.

Representative BENDER. With all due respect, I would like to raise a point of order, Mr. Chairman. As I understand, we are here to discuss the President's Economic Report which he submitted to Congress. I think we are going far afield here in discussing matters that certainly do not relate to this Economic Report of the President or any phase of it. I do not see any particular reason why we should continue this. I am very fond of Mr. Patman and I enjoy listening to his discourses on banking, and he is an expert on it, but I do not believe——

Representative PATMAN. No, I am not.

Representative BENDER. But I do not believe that we are here for that purpose.

Representative PATMAN. Has the gentleman finished?

Representative BENDER. Yes.

Representative PATMAN. I would like to be heard on that, Mr. Chairman.

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. In the Economic Report, we deal with expenditures and receipts. In fact, that is the most important thing about the Economic Report. Now, the questions that I am asking have to do with money that could be obtained if the law, according to my construction, was carried out. The questions I expect to ask will I think bring these facts out unmistakably, that the Federal Reserve Act as passed contemplated that the commercial banks, the private commercial banks would pay for the clearing of the checks, and for 2 or 3 years that was actually done. They changed it and then the different banks could see that they needed more money. There is where the open market business started. It started by necessity for getting earnings for the 12 Federal Reserve banks. They had the power to create money and they began to go over to the Bureau of Engraving and Printing and get these new bills and trade them for Government bonds. The bills, of course, were noninterest bearing. The bonds were interest bearing, and the banks kept the bonds and collected the interest. That is where they commenced to accumulate lots of money, each bank. There is where your Open Market Committee started and from that practice the banks began to accumulate a lot of money. The law of 1935, then officially created the Open Market Committee that we have today, of 7 members of the Board of Governors and presidents of 5 of the 12 Federal Reserve banks, and the Open Market Committee does for these banks what they used to do themselves.

That is another example of the power taken away from the local and regional bank.

Since this power has been placed in the hands of the Board of Governors, they just tell these banks, "Now, we are buying for you"—of course, it is not exactly that way, but in practice and in effect it is—"We are buying for you, Mr. Dallas Bank, or Mr. Minneapolis Bank, so many bonds to go on your books," and they do this for the 12 Federal Reserve banks, thereby taking all this power away from the regional banks and placing it in the Open Market Committee. But the net effect of it is that in adopting these policies, they developed a practice whereby all the transactions of money and checks, including these armored trucks and guards and mail and postage and telegraph and telephone and everything else, costs aggregating $100 million a year are paid by the Government of the United States.

Representative BENDER. How long has that been going on?

Representative PATMAN. It deprives the Government of $100 million that the Government should have every year, and my contention is, Mr. Chairman, that it is important, because if we get that $100 million, it would have some effect on the expenditures and receipts.

Representative BENDER. Mr. Chairman, how long has this been going on? Is this of recent origin?

Representative PATMAN. No. This is nothing political. I am not trying to bring up anything political.

Representative BENDER. No. I would not be political for a moment.

Representative PATMAN. If it is a political party that is guilty, both parties are guilty, and not one.

Representative BENDER. I never view these things from a political angle.

Representative PATMAN. I know the gentleman does not. They all disassociate themselves from anything political. I concede that.

Representative BENDER. We are here to consider the President's economic report.

Chairman WOLCOTT. I think that the Chair is ready to rule on the point of order. I am constrained to overrule the point of order for the reason that the subject matter might be ancillary to our studies. But I know that Mr. Patman will not give it disproportionate weight in his statements or his questioning. I would think that the point of order, if he proceeds too far with the subject, might be sustained on the ground that he is giving a disproportionate amount of time to the subject.

Representative PATMAN. That is a pretty effective threat, and I will be governed by it.

Anyway, $100 million is a lot of money in anybody's book. If the farmers were being paid that, it would be an awful subsidy. With the banks getting it, I do not think it is called a subsidy.

Take also the amount that the Government is losing because it is not getting the interest on the deposits in these 11,000 banks where they have all the way up to $9 billion at times, and that runs into a lot more money. If you calculate the interest at the rate of 3 percent—and the people were paying 3¼ on some of it—that would be $270 million a year. $270 million a year and $100 million a year, make $370 million a year. That makes a difference on anybody's budget, even the national budget. I think it is important.

Representative TALLE. You mentioned that figure—$9 million—yesterday. The Secretary of the Treasury said that it stood at that point for 2 days in June last year. We must not calculate the interest amount on an annual basis if it was $9 billion for only 2 days.

Representative PATMAN. All right. Let us count it as low as $6 billion last year. At 3 percent, that is $180 million. You see, that is still substantial.

Mr. MARTIN. Could I answer, Mr. Patman, your point on the check collection?

Representative PATMAN. Certainly.

Mr. MARTIN. I would just like to say with respect to the history of the Federal Reserve System that I consider par collection one of the real achievements of the Federal Reserve System, and I believe it has been of benefit to more individuals, more people in this country, than any other single contribution, in some respects, mechanically that we have made. It benefits everyone, not just the people who have bank accounts.

Representative PATMAN. I am not talking about the par clearance. I am talking about who pays it.

Mr. MARTIN. The payment would then be made by a service charge or some other way.

Representative PATMAN. All right.

Mr. MARTIN. But the monetary——

Representative PATMAN. Why don't all the banks get the benefit of it, then? As it is, just the member banks get the benefit of it.

Mr. MARTIN. No. Other banks get the benefit of it.

Representative PATMAN. You mean you let them get the benefit of it, too?

Mr. MARTIN. What has happened is that the Federal Reserve System has been a leader in the drive for par collection, and while there are a few nonmember banks——

Representative PATMAN. Oh, it is easy to have par collection at the Government's expense. Nobody would kick at that. I mean, the people involved.

Mr. MARTIN. I just want to point out, though, that that is a real service.

Representative PATMAN. Surely it is.

Mr. MARTIN. Now, we are talking about the banking community as a public utility, and it must be kept in that focus, because that benefits everyone, in my judgment.

Representative PATMAN. Do you mean to say that you——

Mr. MARTIN. I do not know where you get this $100 million.

Representative PATMAN. Now, just one other quetsion. What about nonmember banks? Can they clear their checks?

Mr. MARTIN. Yes, indeed, they can.

Representative PATMAN. Without charge?

Mr. MARTIN. They do.

Representative PATMAN. In other words, these big armored trucks driving around here have the checks of the nonmember banks the same as the member banks, and the Government is paying for it?

Mr. MARTIN. They go to their correspondent banks. Now, so far as the armored trucks are concerned, there are some services that it is perfectly proper in a free society should be reserved to those people who are members and assume the obligations of membership. But so far as the rank and file of nonmember banks is concerned throughout the country, they get complete cooperation and help from the Federal Reserve System.

Representative PATMAN. Here is where I get the $100 million. You take the amount that is spent by the Board of Governors, and then you deduct from it the Government part or the part that should be deducted, and that leaves the part that is going for the services to the banks. I estimate it would be around $100 million. I know there are lots of services involved, and there would be a dispute on some of it as to whether or not the private banks would benefit the most or the Government the most. But it runs into figures approximating $100 million.

Mr. MARTIN. I see here the net expenses for the Reserve banks for 1952, $104 million. The point I am making clear is, check collection was $19 million.

Representative PATMAN. Yes; but you did not count those twenty-thousand-and-some-odd employees that are doing nothing else in the world except clearing checks. In other words, these fine bank buildings all over the country, are just filled with employees, doing little except clearing checks for private commercial banks that ought to pay for themselves.

Mr. MARTIN. I hope you will pay us the honor of visiting one of these banks, Mr. Patman.

Representative PATMAN. I visited your bank one time and went all through it.

Mr. MARTIN. I hope you will do it again.

Representative PATMAN. I do not know whether I would be welcome or not.

Mr. MARTIN. I can assure you right now, you will be.

Representative PATMAN. I know. But you cannot speak for it. You know, they have a man up there that is a bigger man than you are in some respects. He is getting $60,000 a year, and you are only getting about $17,500.

Mr. MARTIN. I work very closely with the gentleman in question, and I am sure he would not mind my saying that he will welcome you.

Representative PATMAN. I understand how these salaries are paid. You see, the banks are compelled to go to the Board of Governors to get clearance on their personnel and their salary rates and everything else. That is not a one-way street. It it is a two-way street; and the other way is a board. They have to get all their money from these 12 Federal Reserve banks. So I do not say it is a mutual back-scratching deal. I would not charge that. But I do say that while they are calling on you for things, you also call on them for your money to operate on, and it does not make too much sense. That is the reason I have been inquiring about these audits. I would like to see them.

Mr. Chairman, I ask unanimous consent that the gentleman be requested to file with the committee—if you want it in confidence, all right—the audits that were made last year of the 12 Federal Reserve banks or any part thereof, and report of Governors.

Chairman WOLCOTT. That is perhaps another one of these things that is perhaps a little disproportionate. It might come better at a later date when we expect some hearings on our banking structure, including the Federal Reserve, and I request of the gentleman he withhold that until the time when it is more germane, with the Banking and Currency Committee.

Representative PATMAN. And it will be considered then?

Chairman WOLCOTT. You and I must not lose sight of the fact that we are acting as the Committee on the Economic Report, and not the Banking and Currency Committee.

Representative PATMAN. I will defer as usual to the judgment of the chairman.

Now, one other line of questioning which I hope will be brief, and I will be through.

I notice you state here on page 11 that—

> It is and must be closely coordinated with debt management. * * *
> But so far as credit and monetary policy is concerned, we are on our own in the Federal Reserve System.

What do you mean there, that you are on your own? That you are kind of footloose and fancy free and the System can do anything it wants to do, and nobody is the master except the Federal Reserve System? Is that the reasoning, Mr. Martin?

Mr. MARTIN. No. That is what I commented on earlier. I think that we have the sole responsibility for monetary and credit policy, and we have to exercise our own judgment.

Now, the monetary function is like the function of the judiciary, as I answered at the time of your questionnaire, Mr. Patman, and I could do no better than at that time. It requires objective judgment free of private pressures and free of political pressures.

Representative PATMAN. Or presidential pressure or congressional pressure?

Mr. MARTIN. Exactly.

Representative PATMAN. All of them?

Mr. MARTIN. All of them.

Representative PATMAN. In other words, you are free, almost another branch of the Government?

Mr. MARTIN. No. You have delegated to us——

Representative PATMAN. The Congress has.

Mr. MARTIN. The Congress has delegated this to us.

Representative PATMAN. That is the reason I asked the chairman yesterday, and I hope he does not talk me out of this one—I asked that the Open Market Committee appear before our committee, because we ought to be able to see one time in our lives the people who are actually running the monetary credit policy of the Government.

Chairman WOLCOTT. I am afraid I am going to have to——

Representative PATMAN. The Congress has delegated the power to the Open Market Committee, which you state here, and correctly so. Since we have delegated that power, which the one-hundred-and-sixty-million-and-some-odd people gave to the 531 Members of Congress, to 12 people, I would just kind of like to see them at one time.

I make the request, Mr. Chairman, again, that we call them before this committee.

Chairman WOLCOTT. You said you would like to see them at one time.

Representative PATMAN. I would like to see them before this committee.

Chairman WOLCOTT. We have a problem with respect to the witnesses. We have a tentative program right up through the 16th, and then the staff and the members are going to have a terrific job to do to get this report out by March 1. That is what has been bothering me.

Representative PATMAN. Don't you think this is more important than everything?

Chairman WOLCOTT. I do not agree with you that the presence of the Open Market Committee is more important than the present study during which we will have other witnesses on the Economic Report. As I see it now, we would have to cancel some of these very important panel discussions which we are going to have next week to make room for the Open Market Committee. I think that perhaps the presence of these panels representing labor and agriculture and business and industry and finance generally—I thought, anyway, that their presence would be of more help to us than the Open Market Committee. That is what is bothering me right now. As for myself, I have not made any definite commitment.

Representative PATMAN. All right. I will not insist on it now, but I do want you to consider it, because they are "it."

Senator FLANDERS. Mr. Chairman, I wonder if Mr. Patman will yield.

Representative PATMAN. If you will let me ask two more questions, I will yield.

Senator FLANDERS. I just wanted to make an observation on the request of yours.

Representative PATMAN. Certainly.

Senator FLANDERS. Since you have a desire to see these men all at once, why not put their pictures into the report? Wouldn't that answer the purpose?

Representative PATMAN. It would not suffice.

What is the interest rate now on the 15-day loans that are made to banks to take care of dislocation in an area?

Mr. MARTIN. The discount window, you mean?

Representative PATMAN. Yes.

Mr. MARTIN. The rate is 2 percent at the present time.

Representative PATMAN. Mr. Chairman, rather than pursue any more questioning, I ask permission to file with the staff director of the committee, Mr. Ensley, to be delivered to Mr. Martin, some questions to answer in the record.

Chairman WOLCOTT. Will that be agreeable, Mr. Martin?

Mr. MARTIN. I will be very glad to do it, yes, sir.

(The questions and answers referred to appear at the conclusion of Mr. Martin's oral testimony.)

Representative PATMAN. And one other quote here, and I will assure you that I am through.

I have the Journal of Commerce before me for Wednesday, December 30, 1952. You are quoted as saying in 1952,

> And while I do not think we ever should permit the pain and tragedy of the great unemployment of the 1929 collapse to recur, nevertheless we should not let social security and other welfare work impair the free enterprise system that has made us strong.

What did you mean by that statement, Mr. Martin?

Mr. MARTIN. I would have to look back and see. I do not know whether I am quoted correctly, even, Mr. Patman.

Representative PATMAN. All right. That will be in the record.

Mr. MARTIN. You say "quotation marks"? I don't recall.

Representative PATMAN. Thank you, Mr. Chairman.

Chairman WOLCOTT. Mr. Flanders.

Senator FLANDERS. I am very sorry that I was unable, Mr. Chairman, to be here at the beginning of the session. When I came in, Mr. Martin was saying something, as I understood it, to the effect that judgment could have been better, and I think you were using the word "humility". Didn't I hear that word?

Mr. MARTIN. I used that word, sir.

Senator FLANDERS. This brings me to a point which I think I emphasized in the first study on monetary policy with Senator Douglas as chairman, and again a second time when Mr. Patman was chairman, and that was the question of getting the Federal Reserve management, the financial people of the country, and business in general used to small increments of change rather than big or fairly large ones. You probably have seen that painting in the Bank of England of the impressive way in which every Saturday the doors of the council chamber would open, and to a group of waiting reporters, they would announce any change that there was in the discount rate, those changes were made rather more frequently, I think, than we make them. They are awaited with interest. But every one of them was not considered to represent some crisis.

Now, can we not get a reaction that is more usable and less cataclysmic on these public reactions by making our changes in small increments so that we can keep in constant touch with effect, so that the financial public and the business public get used to small changes and do not think of every one as an endeavor to meet a crisis of some sort?

Mr. MARTIN. I subscribe to that completely, Senator. I think that we have been moving in that direction, and that is what I was trying to say when I commented at the end of my statement that we have made notable progress during the past year toward freer self-reliant money markets.

Now, there have been some changes in the money market, and while we have not had all the flexibility that perhaps is desirable, we are making progress in our system, I think, toward reorienting our thinking in the discount rate, reserve requirements, and our open-market operation.

Senator FLANDERS. I am glad to know that that is in your thoughts as well as it has been long in mine.

Now, as an amateur in economics, looking at it from the outside, it has always seemed to me that it was a study of human behavior, and I think perhaps your experience for that year or so indicates that it is a study in human behavior somewhat unpredictable at times. Can we not say that it is fundamentally a study of human behavior, perhaps based on the scientific basis of statistics for analysis and interpretation of things that have gone past? I cannot make myself believe that it is a science the way that a physical science has to have sufficient handle, sufficient discipline and control so that it can safely predict. Can you ever safely predict in the economic world?

Mr. MARTIN. You have stated better than I did earlier my lack of confidence in formulas or precise determinations. I do not think you can. I do not think it is a science in that sense. I think the only thing you can do is to recognize it as human behavior, but to operate within concepts such as the free-market concept, which has to be adapted to various situations and to our understanding of such things as private property, free competitive enterprise and the profit motive. You have to have that as an article of faith. You have to have some convictions, in other words.

Senator FLANDERS. Yes. Well, that does sound good to me. Now, I want to raise another question because it has been a matter of interest for many years, and people who really know something about the subject have not on the whole been interested. So I raise the question again. When we speak about the volume of the money supply, is there no element in there of the effect of velocity as well as volume?

Mr. MARTIN. There most certainly is, and I for one do not agree with the quantitative theory of money. I think we have to have the velocity element, the qualitative factor, always as a part of any money equation.

Senator FLANDERS. May I say that when I was briefly president of the Federal Reserve bank in Boston, I was interested in getting the velocity question considered, and found that it was considered at that time as simply a result of the two factors by which you measure velocity, and was not considered to have any usefulness in itself, a measure of any usefulness in itself. It seems to me that velocity touches very closely on the human aspect of economics. In a way, it is the measure of what people are thinking about their money.

Mr. MARTIN. Yes.

Senator FLANDERS. I just pass that off for what it is worth.

Representative BENDER. Mr. Chairman, the Senator I am sure raises very good points. But the bells have rung for a rollcall, and I am a candidate for public office, and I have to answer rollcalls.

Senator FLANDERS. I did just want to make some observations and some inquiries on the point that Mr. Patman raised with regard to the possibility that those who had access to open-market policy might take advantage of it so far as buying and selling securities in the market are concerned. Are there margin dealings in Government bonds?

Mr. MARTIN. Oh, yes, sir.

Senator FLANDERS. Do the same rules apply to Government bonds that apply to securities?

Mr. MARTIN. No. There is a much smaller margin on Government securities.

Senator FLANDERS. I see. So to that extent, the control is very much less severe than it is over ordinary securities?

Mr. MARTIN. Yes.

Senator FLANDERS. The changes, of course, are much smaller than are available in the securities market. We do not have the great fluctuations, for instance, that occurred in Secretary Wilson's stock in General Motors, when he disposed of it, and as it is at the present time. I hope Government securities never go to those extremes. But I wonder how great the temptation really is on bond prices. It would seem to me that anyone who was thinking of speculating would preferably do it in some other field than bonds.

Mr. MARTIN. I think there would be a tendency that way, but I cannot deny Mr. Patman's point, that if you knew, if you were speculating on a sure thing, a small fluctuation in Government securities could give you quite a substantial profit.

Senator FLANDERS. Just one other observation, rather than a question. Of course, when you said that one who did that would be violating his oath of office, he could freely buy and sell savings bonds without coming under that, because the savings bonds are fixed in their price at any given moment, so that you would not feel that you would have to look into the buying and selling of savings bonds?

Mr. MARTIN. Not at all. I am talking about marketable securities.

Representative PATMAN. May I add one question, there, Mr. Chairman? About your oath of office, how many of your people in the open-market operation, the operating office, are under oath?

Mr. MARTIN. I do not think the actual desk is under oath.

Representative PATMAN. Is it not just the president of the Federal Reserve bank, who happens to be a member of the Open Market Committee? He is the only one that takes an oath?

Mr. MARTIN. Well, he is responsible, and he is responsible for the men under him.

Representative PATMAN. But all the other people who actually do the work and know what is going to happen, they are not under oath at all?

Mr. MARTIN. There are not very many of those, Mr. Patman, on that desk. I have gone up there a number of times myself, and I would welcome your visiting the desk, also.

Chairman WOLCOTT. Thank you very much, Governor Martin. We are very happy to have you and Mr. Young and Mr. Cherry here.

The meeting will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:03 p. m., Wednesday, February 3, 1954, the joint committee recessed, to reconvene at 10 a. m., Thursday, February 4, 1954.)

FURTHER QUESTIONS SUBMITTED BY WRIGHT PATMAN, MEMBER OF CONGRESS, TO WILLIAM MCCHESNEY MARTIN, JR.

1. Did inflation constitute a threat to the economy in December 1952?

This question was answered in my oral testimony as follows:

"I believe that it did. I had some doubts about how potent the force was, but there, as always, an element of judgment enters. There was a lot of speculative enthusiasm, as I pointed out in my statement here that was engendered during that period, and its reflection was in inventories. We viewed with considerable alarm the increase in inventories in the last part of 1952 and the early part of 1953. Now, as we approached January and February of 1953, and these inventories were rising, combined with speculative enthusiasm, there may have been some people who were absolutely certain that deflation was the problem, and not inflation. In my judgment, we were facing there a bubble on top of a boom that called for a policy of restraint at that juncture. I believe that everybody is entitled to his opinion and judgment, and I believe that if that bubble on top of the boom had gotten considerably larger, we would be having much more serious difficulties today than we are. That is purely a matter of judgment."

2. What was the course of yields on Treasury bills, Government bonds, and corporate bonds from January to November 1952?

I have inserted a table on these yields in the record at the appropriate place.

3. What considerations led to the raising of the rediscount rate the day before the President took office?

This question was answered in my oral testimony as follows:

"The discount rate and the discount window had been in a virtual state of disuse for a period of a good many years. In the period of adjustment following the accord that was worked out with the Treasury, there was very little borrowing at the discount window. We had a gradual process of reactivation of that aspect of our work. Now, by the end of 1952 and early 1953, the market rate on bills was out of line with our discount rate. It had been out of line for some time. This was a period of market adjustment. During the fall of 1952, you will recall that the Treasury in its financing moved its rate up from 1⅞ percent to 2 and 2⅛.

"This took some courage and some intelligence and some handling on the part of Secretary Snyder. To have injected into that situation an increase in the discount rate, although the discount rate was out of line as an effective instrument, would in my judgment have been a mistake."

4. What consideration was given to the probable impact on agriculture of the higher rates and tighter credit conditions that would follow?

Agriculture is a business like any other business. Inflation is not in the interest of farmers since they have much to lose and little to gain from it, and like other business groups they desire stable economic developments for the country. The System at that time was alert to the needs of agriculture for productive credit. Through the 12 Federal Reserve banks, it was continously keeping in close touch with the problem of agricultural credit to avoid any disproportionate incidence of tightening credit conditions on agriculture.

5. Do you agree with Mr. Burgess that the Federal Reserve should be the primary stabilization agency in Government?

I answered this question in my oral testimony as follows:

"Yes, I think it should be."

I would add here that it certainly is an important stabilization agency, especially because of its flexibility and adaptability to changing conditions.

6. Should the primary aim of Federal Reserve policy be the attainment of stability in the price level?

The basic objective of the Federal Reserve System, as I view it, is to help counteract inflationary and deflationary movements and to share in creating conditions favorable to sustained high employment, stable values, growth of the country, and a rising level of consumption. Stability of values generally, therefore, is one of the important objectives of System policy.

7. In the event prices should start to rise, accompanying an expansion of business activity after the present readjustment runs its course, what policy would you pursue?

Rising prices normally indicate the need for a less expansionary credit and monetary policy. The actual application of policy to a particular situation would depend, of course, on how actively the economy's available productive resources were being used.

8. At what level of unemployment would you start to tighten credit in order to stabilize prices?

A rising or high level of unemployment is ordinarily a signal for easy credit and monetary policy.

9. Can central bank policy effectively bring down interest rates on real-estate mortgages, on short-term bank loans to business or on commercial and personal loans in areas away from metropolitan centers and particularly in rural areas?

Changes in the availability of funds as well as changes in quoted interest rates must be considered in connection with this question. The market in which borrowers bid for the available supply of savings, including the variant financial centers, is a competitive and interrelated one. The financial centers are highly sensitive to changes in credit conditions emanating from any source. All available evidence indicates that changes in the availability and cost of credit in the financial centers is progressively reflected in all other communities of the country.

The role of the Federal Reserve in relation to the cost and availability of credit is developed in the reply to question 31 of the questionnaire submitted to the Chairman of the Board of Governors of the Federal Reserve System by the (Patman) Subcommittee of the Joint Committee on the Economic Report, 82d Congress, 2d session, under the general subject Monetary Policy and the Management of the Public Debt; Their Role in Achieving Price Stability and High Level Employment. This reply, revised in the light of further analytical work, was reprinted in the Federal Reserve Bulletin for March 1953. [A copy of the revised article is available in the committee's files.]

10. Do you believe that Government activities in the credit field supplementing the private banking facilities have been unduly excessive?

My response to this question in the oral testimony was as follows:

"I do not think one can make a categorical answer to a question like that, because so much depends on the circumstances at the time."

11. Do you believe that we should curtail or expand the present lending activities of the Federal Government to private individuals (including guaranty of private loans)?

I believe that the public interest and well-being, as well as the economy's productivity, will be served best by maximum reliance on efficiently functioning private money markets. There is a role in such a concept for direct Government lending (as in connection with lending to finance defense facilities) and for guaranties (as in connection with V loans and FHA insurance). It is important that such programs be conducted in such a way as to facilitate and not impede the money market in the competitive allocation of resources.

12. Do you believe that central bank policy would have any appreciable effect in bringing down the whole complex structure of private interest rates without the aid of the various types of governmental lending and loan guaranty corporations?

Yes. As I indicated in my answer to question 9, the financial market is a competitive one and any fundamental change in the supply and availability of credit in one sector will have an impact on credit conditions generally.

13. Do you believe that the Federal Reserve should reduce margin requirements in order to stimulate equity investment?

Margin requirements should not be so high as to retard sound equity investment, but high enough to prevent a repetition of speculative stock market boom and bust such as we had in the late 1920's.

14. Do you see any danger of a repetition of the highly inflated stock market boom of the late 1920's arising from a substantial easing of tax rates on dividend income?

No, because the credit pyramiding which made that boom possible would not be repeated with stock purchase margins subject to regulation.

15. Do you think that the current level of private investment is maintainable?

Yes.

16. Do you agree with the recommandation of the economic report that businessmen should be permitted to write off new plant and equipment more rapidly in the early life of the asset?

Yes.

17. Would this aggravate or would it ease the problem of achieving a maintainable rate of private fixed capital investment?

It would ease the problem.

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 4, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:20 a. m., in room 1301, New House Office Building, Representative Jesse P. Wolcott (chairman), presiding.

Present: Representative Wolcott (chairman); Senators Flanders (vice chairman), Watkins, Carlson, and Douglas; Representatives Talle, Patman, and Bolling.

Also present: Senator Wallace F. Bennett, of Utah; Representatives Brent Spence, of Kentucky; Charles B. Deane, of North Carolina; and Grover W. Ensley, staff director, and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We have the Secretary of Agriculture, Mr. Benson, and his staff with us this morning. We are very glad to have you here, Mr. Secretary.

Secretary BENSON. Thank you, Mr. Chairman.

Chairman WOLCOTT. May I suggest, inasmuch as the Secretary has a prepared statement, that he be allowed to continue with his statement, expecting, of course, that there will be questions following the statement.

Mr. Secretary, we will be glad to have you proceed.

STATEMENT OF HON. EZRA TAFT BENSON, SECRETARY OF AGRICULTURE, ACCOMPANIED BY ROSS RIZLEY, ASSISTANT SECRETARY OF AGRICULTURE; DON PAARLBERG, ASSISTANT TO THE SECRETARY; AND O. V. WELLS, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

Secretary BENSON. Thank you very kindly.

Mr. Chairman, and members of the committee, I should like to make a brief opening statement. I will sketch present and prospective conditions in agriculture, describe the interdependence of agriculture and other segments of the economy, and outline the recommended changes in agricultural legislation recently proposed to the Congress.

THE AGRICULTURAL SITUATION

In general, agriculture is in a period of transition. There is the transition from conditions of inflation to what we anticipate will be relative stability of the general price level. Likewise there is the transition from the seemingly insatiable war and postwar demands to the more moderate needs of a peacetime economy. There are the continuing technological changes within agriculture as farming becomes more scientific and commercial. It is not surprising that agriculture experiences some difficulties in adjusting simultaneously to all these powerful forces.

We have all been concerned regarding the serious declines in agricultural prices and incomes since 1951. Prices received by farmers now average 17 percent below the post-Korean peak of February 1951. The realized net income of farm operators in the year just ended totaled $12.5 billion, almost $2 billion less than in 1951.

While these declines in agriculture have been less than occurred in 1948 and 1949, when farm prices dropped 24 percent in 23 months and net income dropped $3 billion in 2 years, they have been serious enough to arouse fears once again that a general depression is in the making.

We do not believe such a pessimistic view is justified at present, especially in view of the real progress that has been made in the past year in stemming the price decline. In fact, the latest price report of the Department issued last Friday showed a widespread improvement, averaging 4 percent from mid-November to mid-January, and central market prices indicate this trend has continued in recent weeks.

I would like also to draw your attention to the fact that when this administration took hold in January 1953, the parity ratio—which measures the relation of the prices the farmer receives for his products to the prices the farmer pays—was 94, a 10-point drop from a year earlier. This January, the parity ratio was 92, only a 2-point decline in the past 12 months. Thus, the cost-price squeeze in agriculture which developed so rapidly during 1952 has not been intensified significantly in the last year. In view of the magnitude of the problems facing agriculture, this is a real accomplishment.

Our problems of excessive reserves have their roots in earlier years. In response to wartime demands, the agricultural plant has become geared to high levels of production. Farm output in 1952 was a record high, 44 percent above the prewar period, 1935–39, and 6 percent larger than in 1950. Production in 1953 was about as big as last year's record. There was a sharp increase in cattle marketings reflecting a 4-year buildup in cattle numbers on farms and distress selling due to serious drought conditions in many areas.

At the time we were realizing a record output in 1952 foreign demand for United States farm products weakened as a result of increased agricultural output abroad and foreign exchange difficulties. Our farm legislation tended to price our products out of world markets. In the fiscal year which ended June 30, 1953 the value of United States farm products shipped abroad totaled $2.8 billion, a drop of 31 percent from the previous year.

Despite a continuing strong domestic demand, high-level production and diminished export outlets brought pressure on farm prices and a rapid expansion in price support operations and in stocks of many farm products resulted. The carryover of wheat in this country next July 1 is now estimated at about 800 million bushels, more than a normal year's domestic consumption. The carryover of cotton at the beginning of the next crop season next August 1 is estimated at 9.6 million bales, about a year's domestic use. Substantial increases are also expected in stocks of corn and edible fats and oils.

Most of these stocks will be in the hands of the Commodity Credit Corporation. At this time, we have committed practically all of the \$6¾ billion authorized for price support operations. It is a measure of our wholehearted administration of existing price-support programs that despite the burdensome accumulation of wheat, cotton, and other supplies, the average price received by farmers for wheat on January 15, 1954, was \$2.03 per bushel, only 7 cents less than a year earlier while the average price for cotton per pound was slightly higher than in mid-January 1953.

There is much reason to believe that agricultural price adjustment to peacetime conditions is largely behind us, providing that a high level of economic activity is maintained in this Nation. For 1954, we believe that agricultural prices and agricultural incomes will be maintained fairly close to those of 1953. Foreign demand has rallied slightly from the relatively low level established during the summer of 1952. We are pushing every possibility for expanding our foreign outlets. We have also begun the adjustment of excessive supplies. Under the requirements of present legislation, acreage allotments have been established for wheat, cotton, and corn which are expected to result in a reduction of some 25 million acres formerly devoted to these crops. We will continue to administer aggressively the current price-support programs to the limit of our resources.

The goal of this administration is to encourage the conditions that lead to economic growth—and that means an expanded level of living for the American people. The road to economic growth is through expanded production—production that finds its way into consumption and not into warehouses. We cannot continue to accumulate large stocks of farm products which threaten the maintenance of prices and incomes of farm people. Farmers should receive prices and incomes which reflect their contribution to the Nation's well-being. Nonfarm people should be willing that farmers have the opportunity to share in a constantly expanding standard of living. The pressure of a rapidly growing population is such that no one can take for granted that some years hence, the needed food and fiber will be forthcoming without stress. We must encourage the conditions that will result in an efficient and expanding agriculture. The President's proposals on the agricultural programs will help economic growth in this Nation.

THE RELATIONSHIP OF AGRICULTURE TO OTHER SEGMENTS OF THE ECONOMY

In our modern economy, agriculture, industry, and labor are completely interdependent. There is no need to demonstrate that an agricultural depression is highly contagious and can quickly spread to the rest of the economy. Neither is there need to demonstrate that a decline in the buying power of labor or a slackening in the rate of capital investment are capable of bringing about an economic downturn.

Farm programs which help stabilize prices are a necessary first line of defense against recession. Price-support programs can help turn aside bearish price movements when such movements are in an early stage. Unimpeded, a minor downturn might grow to serious proportions.

But if a serious economic downturn should strike, acreage controls and farm price supports by themselves are not well suited to turn the blow or to bring about recovery. The preventives and the remedies here are broader than agriculture alone.

It is possible to fashion farm programs which provide for the accomplishment of changes needed within agriculture and which ward off and cushion the shock of economic disturbances of ordinary magnitude, originating in or outside of agriculture. This I believe we have done in the program which the President has recommended to the Congress. It would be unjustified optimism, I believe, to expect more than this from a price-support program.

THE RECOMMENDED FARM PROGRAM

The need for improving our farm price-support program is urgent and obvious. Our present legislation provides price support for the basic commodities at 90 percent of an outdated parity. It is based on wartime needs, and has been extended 8 years beyond the official end of the war. These are the unfortunate consequences of this legislation:

Production of certain crops has been stimulated beyond normal needs.

Use of our resources has become unbalanced; the high support price for wheat has shifted into wheat production lands that should be in grass or in feed grains.

Consumption of some commodities has been curtailed by unrealistic prices. For example, growth in the per capita consumption of textiles during the past 25 years has been captured wholly by the synthetic fibers; cotton has not shared in this increase.

Exports have fallen sharply, party as a consequence of having priced ourselves out of the market. During the past 2 years our exports of wheat outside the International Wheat Agreement have fallen from 220 million to 64 million bushels, while Canada's free market sales have risen from 105 to 161 million.

Our artificially high domestic prices have served to attract the products of other countries to us like a magnet. To keep from having our price-support programs rendered ineffective by imports, we have had to impose trade barriers that offend those free nations whom we urgently need as friends.

Prodigious stocks of some commodities have been accumulated. These stocks hang over the market and depress prices despite our best efforts to make price support effective. Wheat, which we have endeavored to support at 90 percent of parity, has in fact been bringing only 82 percent—corn, with the same level, is only 79 percent.

Heavy costs have been incurred. We have submitted a request for the restoration of capital losses of the Commodity Credit Corporation totaling approximately three-quarters of a billion dollars. In addition we have found it necessary to request that the borrowing authority of the Commodity Credit Corporation be increased from $6.75 to $8.5 billion.

Price increases to some farmers, such as sellers of corn, mean cost increases to other farmers, such as livestock producers.

To obtain price support at 90 percent of parity, drastic acreage reductions must be made. The production of other crops on these diverted acres serves to shift the supply problem to farmers whose crops are not price supported.

Favored in this system are the producers of the 6 basic crops, the income from which totals only 23 percent of total farm income from marketings. Favored also are the 40 percent of our farmers who have units sufficiently large so that they are really commercial operators. The 3½ million small operators produce so little that price supports do not mean many extra dollars.

Our present program is looked on with misgivings by many farmers and nonfarmers. A continuation of this program could offend our populace to such a point as to discredit all forms of direct aid to agriculture. Agriculture thus might lose the public good will which has served well in the past and for which there is continuing need.

It was the difficulties which I have named that led us to the study on which the President's recommendations are based. It was the broadest review of agricultural price policy ever undertaken in this country. Farmers participated directly through public policy discussion conducted by the national farm organizations. Scores of producer, processor, and trade groups were consulted. Research institutions and the agricultural colleges gave us the results of their studies. The National Agricultural Advisory Commission spent the better part of a year on the problem. Men in the Department of Agriculture gave the knowledge gained by the accumulated experience of 20 years of grappling with these matters. The various departments of the executive branch were consulted. Many Members of the Congress shared their rich experience.

Diverse though these many views were, as our inquiry progressed there appeared an ever-expanding area of general, though certainly not unanimous, agreement. This agreement had to do with the role of market price in guiding the production and consumption of farm products.

We found that most farmers understand the dangers inherent in high fixed prices—leading both to reduced consumption and to tight controls over acreage and marketing. They realize that prices must respond to changes in demand and to changes in the methods and costs of production.

But it is generally conceded that free, unsupported prices have some shortcomings as far as farm products are concerned.

There is a high degree of instability in market prices. Frequent and wide disturbances in prices serve no useful economic purpose, and make sound adjustment more difficult.

Farmers do not wish to be left to the unimpeded forces of the market. They are willing to make some sacrifices in freedom and efficiency in order to protect themselves from what they consider to be the excesses of the price system.

At the same time, however, farmers do not want to abandon the freedom and efficiency which market prices provide, and accept the inevitable alternative, which is full scale bureaucratic control. They wish to retain such freedom and independence despite the allurement of what has been called the welfare state.

There appears to be a general desire to work toward improving the functioning of market prices, rather than to move away from them. This appears true of the great majority of farmers as well as technical people.

It seems that extremists from neither the right nor the left thus far have captured the farmer's mind. Nor have extremists gained a substantial following among professional analysts.

The price-support legislation which the President has recommended to the Congress is a middle-of-the-road program. It is intended to utilize the efficiencies and the freedoms inherent in market prices, while at the same time protecting farmers and consumers from the blind forces which can impair the functioning of a completely free economy.

We are presently operating under agricultural legislation which was developed during depression times and modified during the war to encourage production. An important feature of this legislation is that price support is required at 90 percent of parity for the basic crops—wheat, corn, cotton, tobacco, rice, and peanuts. Adjustment to peacetime needs has been delayed.

The major provisions of the legislation which has been recommended to the Congress by the President are these:

1. The framework of the proposed legislation would be the Agricultural Acts of 1948 and 1949. These acts were soundly conceived, and received strong bipartisan support. For the basic commodities they provide a schedule of price floors ranging from 75 to 90 percent of parity, varying inversely with the supply. These acts are now inoperative for the basic commodities because their provisions are held in abeyance.

2. The amendment to the act of 1949, which calls for mandatory price support for the basic commodities at 90 percent of parity, should be allowed to expire following the 1954 crops, as now provided by law.

3. Modernized parity should be permitted to become effective as now contemplated, on January 1, 1956. A transitional provision would drop the parity price not more than 5 percentage points a year until the shift from old to modernized parity was complete.

4. The new program should be given an opportunity to start operating without the handicap of our accumulated surpluses. This can be done by setting aside up to $2,500 million worth of commodities from Commodity Credit Corporation inventories for use in school-lunch programs, disaster relief, aid to the people of other countries, and stockpiled reserves at home for use in war or national emergency.

The Agricultural Acts of 1948 and 1949 grew out of the hearings on long-range agricultural policy and programs and contain two principal objectives which have been sought for years—the revision and modernization of the parity formula and the establishment of a flexible price-support program.

The basis of our price-support computations is in the parity concept. Stated simply, the price of a farm commodity is at parity if it bears the same relationship to prices the farmer pays as was the case during the base period, 1910 to 1914. Cost-lowering technological advances and shifting demands have disturbed these old relationships, and have had a differential effect on the various commodities. The Congress wisely brought the parity concept up to date by providing for a modernization of the parity formula. Modernized parity for a commodity takes into account the relationship of the price of that commodity to other farm products during the past 10 years. Modernized parity is now in use for all but four commodities—wheat, corn, cotton, and peanuts. The law provides that modernized parity shall become effective January 1, 1956.

The overall effect of these changes should be to encourage the increase in the production of animal products and to broaden the market generally. Even though the parity price for grain may be a little lower, the market for grain will be greatly broadened.

The program points in the direction of expanding the total market as against restricting production to the available market. This program would permit the production and marketing of larger quantities of farm products than would be possible with price support at 90 percent of parity. Income is the result of production times price, not price alone. We anticipate that over the years, this program would result in larger farm incomes than the present.

Better farm management would be possible with this program, since restrictions on production would be less necessary.

This program would utilize, in the public interest and in the interest of individual farmers, the efficiencies that come from freedom of action.

There are other important features of the President's proposals which I shall not bring out in this formal statement. I will simply indicate that the various farm products are considered separately within the general framework which I have outlined. Farm products vary as to their importance, their perishability, their dependence on export trade, the elasticity of their demand and in many other important ways. Each has been dealt with in accordance with its special circumstances.

An important feature of the recommended program is what one might call its gradualism. It sets a new direction, but it proceeds in that direction slowly rather than with haste. As the President's message indicated, we will use our discretion under the Agricultural Act of 1949 to insure that year-to-year variations in price support levels are limited.

For this year's basic crops, the program would have no effect whatever, as the administration is pledged to carry out the existing law during 1954.

For 1955, the level of price support for the basic crops would become dependent on the supply. But with the provision for setting aside $2,500 million worth of excess reserves, the supply calculations should give a support price near present levels.

For 1956, the level of price support would continue to depend on the supply. In addition we would start moving toward modernized parity, which of itself would mean a drop of up to 5 percent in the level of support of the 4 crops, cotton, corn, wheat, and peanuts.

For 1957, we would largely have completed the shift to the new program.

As can be seen, this program requires a minimum of new legislation. Rather, to a large degree, it calls for the implementation of laws already on the books, previously agreed upon by the Congress. In fact, if the Congress passes no farm legislation whatever, the greater part of this program would become operative.

The Congress should not return to the philosophy of scarcity that was tried and found wanting in the 1930's.

To be prosperous the farmer must produce. The new farm program is geared to just such a philosophy. It is aimed at reducing to a minimum Government restrictions on farm production. We dare not pursue the route of scarcity in our quest of a high level of living for all. Farm income is the product of price times volume—dollars times bushels, pounds, or tons.

America did not become great on an economy of scarcity nor will it remain great under such an approach. Restricted production is not the road to prosperity over the long pull. As we have learned through the years, a dynamic economy requires increased production and increased consumption. This is the way to more enjoyment of the better things of life by more people—the way to maintain a high level of living.

This program, we believe, is consistent with the economic report of the President, recently transmitted to the Congress.

Immediately following are schedules I, II, and III, which cite the quantities and costs of commodities owned by the Commodity Credit Corporation, and the commodities under loan. Also attached are charts A, B, C, and D, which document the mounting burden of the present program. An especially interesting chart is chart C, which reveals the similarity of prices for supported and nonsupported farm products. This chart confirms the overriding importance to agriculture of the general economic conditions which are the special concern of this committee.

(The schedules and charts referred to follow:)

SCHEDULE I.—*U. S. Department of Agriculture, Commodity Credit Corporation, report of price-support commodities as of Jan. 6, 1954, based on records and known commitments in CSS commodity divisions and offices*

Commodity	Unit of measure	Estimated total stocks [1]		
		Quantity	Approximate unit cost	Total cost (thousands)
Cotton:				
Upland	Bales	235, 394	$140. 78	$33, 139
Linters	do	934, 044	59. 77	55, 828
Dairy:				
Butter	Pounds	260, 993, 000	. 6691	174, 630
Cheese	do	257, 486, 000	. 4024	103, 612
Milk, dried	do	439, 756, 000	. 1664	73, 175
Grains and seeds:				
Barley	Bushels	464, 000	1. 49	691
Beans, dry edible	Hundredweight	389, 000	10 76	4, 186
Corn	Bushels	374, 738, 000	1. 66	622, 065
Flaxseed	do	312, 000	4. 14	1, 292
Grain sorghum	Hundredweight	58, 000	2 54	147
Rye	Bushels	148, 000	1. 68	249
Seeds, hay and pasture	Pounds	78, 265, 000	. 4726	36, 988
Seeds, winter cover crop	do	35, 121, 000	. 0765	2, 687
Soybeans	Bushels	415, 000	2. 76	1, 145
Wheat	do	442, 898, 000	2. 59	1, 147, 106
Naval stores:				
Rosin 517-pound	Drums	602, 435	38. 63	23, 272
Turpentine 50-gallon	Barrels	43, 566	26. 22	1, 142
Oils and peanuts:				
Cottonseed oil, crude	Pounds	59, 378, 000	. 1265	7, 511
Cottonseed oil, refined	do	967, 975, 000	. 1841	178, 204
Linseed oil	do	273, 065, 000	. 2917	79, 653
Olive oil	Gallons	203, 000	2. 52	512
Peanuts, farmers' stock	Tons	31, 034	241. 00	7, 479
Tung oil	Pounds	5, 223, 000	. 27	1, 410
Tobacco	do	4, 183, 000	. 2815	1, 178
Wool:				
Pulled	do	6, 284, 000	1. 20	7, 541
Shorn	do	89, 074, 000	. 6310	56, 206
Total				2, 621, 048

[1] Estimate total stocks owned by CCC, plus commitments to purchase less commitments to sell.

SCHEDULE II.—*U. S. Department of Agriculture, Commodity Credit Corporation, commodity inventories estimated as of Jan. 5, 1953*

Branch and commodity	Unit of measure	Estimated quantity	Approximate unit cost	Aggregate cost (thousands)
Cotton:				
Cotton, upland	Bales	235, 754	$137. 23	$32, 353
Cotton linters, 1951	Pounds	81, 896, 000	$0.1064	8, 714
Cotton linters, 1952	do	191, 926, 000	$0.0829	15, 911
Dairy:				
Butter	do	18, 438, 000	$0.6717	12, 385
Cheese	do	2, 074, 000	$0.3825	793
Milk, dried	do	40, 360, 000	$0.175	7, 063
Fats and oils: [1]				
Cottonseed oil, crude, 1952	do	27, 977, 000	$0 1584	4, 432
Cottonseed oil, refined, 1951	do	111, 739, 000	$0.1813	20, 258
Cottonseed oil, refined, 1952	do	[2] 101, 927, 000	$0.1787	18, 214
Linseed oil	do	185, 924, 000	$0.2878	53, 509
Peanuts, farmers, stock	do	98, 852, 000	$0.1288	12, 732
Grain:				
Barley	Bushels	1, 000, 000	$1.50	1, 500
Beans, dry edible	Hundredweight	2, 029, 000	$8.08	16, 394
Corn	Bushels	273, 472, 000	$1.59	434, 820
Flaxseed	do	137, 000	$4.31	590
Grain sorghum	Hundredweight	90, 000	$2.96	266
Oats	Bushels	4, 404, 000	$1.02	4, 492
Rice, rough	Hundredweight	2, 000	$5.63	11
Rye	Bushels	34, 000	$1.64	56
Seeds, hay and pasture	Pounds	16, 077, 000	$0.1224 to $1.25	12, 265
Seeds, winter cover crop	do	332, 352, 000	$0.0504 to $0.167	18, 944
Soybeans	Bushels	1, 000	$2.64	3
Wheat	do	126, 806, 000	$2.66	337, 304
Livestock: Wool	Pounds	63, 000	$1.25	79
Tobacco:				
Rosin, 1948	do	12, 851, 000	$0 0839	1, 078
Rosin, 1949	do	[3] 131, 313, 000	$0 0708	9, 297
Rosin, 1951	do	20, 618, 000	$0.0755	1, 557
Turpentine, 1949	Gallons	[4] 500, 000	$0.4840	242
Turpentine, 1951	do	25, 000	$0.5428	14
Tobacco	Pounds	3, 755, 000	$0.2822	1, 060
Total				1, 026, 336

[1] Not including 300 million pounds linseed oil and 82,000 pounds tung oil held for the account of the Secretary of Agriculture pursuant to sec. 304 of the Defense Production Act of 1950.

[2] In addition CCC is obligated to purchase approximately 177,765,000 pounds of 1952 oil, representing the estimated outturn from additional quantities of crude oil which have been assigned to refiners for refining.

[3] Of this quantity 103,400,000 pounds withdrawn from sale.

[4] Withdrawn from sale.

NOTE.—This report reflects operating data taken from various sources and is, in part, based on preliminary estimates. The official inventory of the Corporation, as taken from its accounting records, is that contained in the monthly report of financial condition and operations.

SCHEDULE III.—UNITED STATES DEPARTMENT OF AGRICULTURE, COMMODITY STABILIZATION SERVICE

COMPARISON OF CROPS UNDER LOAN IN 1953 AND 1952

The following table shows by commodities the quantities of 1953 crops, other than cotton, placed under loan and purchase agreements by farmers through December 15, 1953, as compared with the same date last year:

Commodity	1953 totals (1,000 bushels)	1952 totals (1,000 bushels)
Barley	32, 226	6, 825
Corn	94, 801	100, 349
Flaxseed	[1] 14, 238	3, 145
Grain sorghums	25, 766	2, 615
Oats	43, 366	15, 769
Rye	3, 799	129
Soybeans	29, 095	8, 928
Wheat	431, 030	342, 812
Totals	674, 321	480, 572

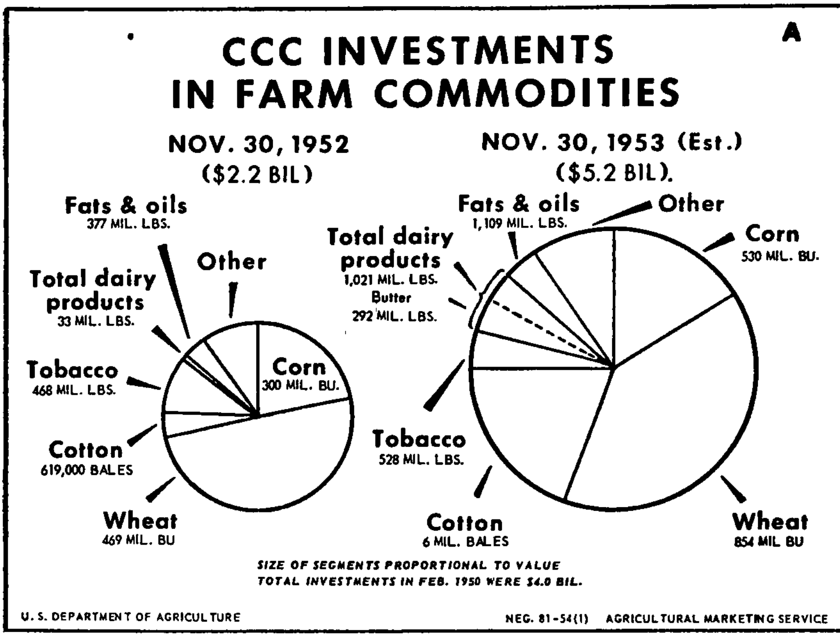
[1] Does not include direct purchase of 750,000 bushels of flaxseed in Texas.

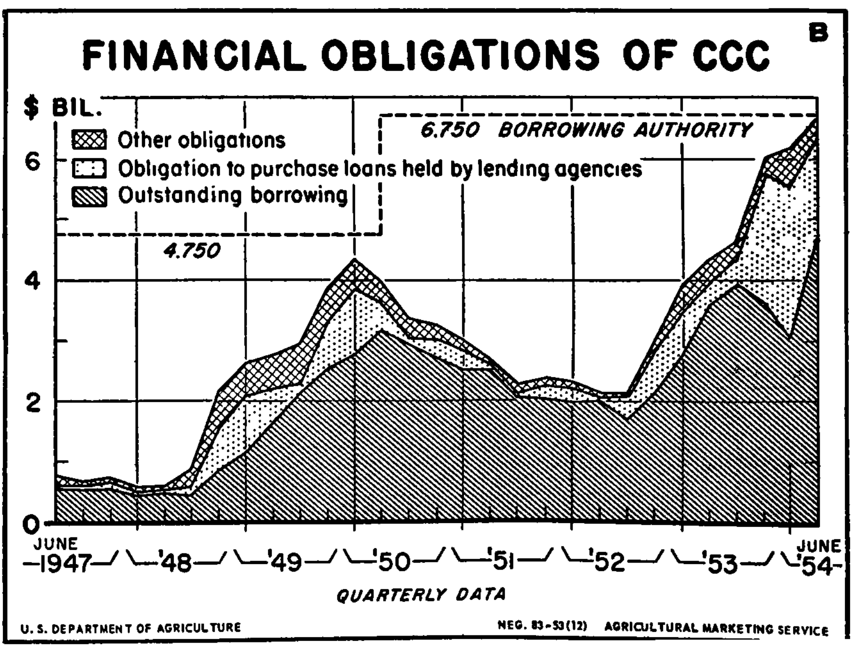
COTTON UNDER LOAN, 1953 AND 1952

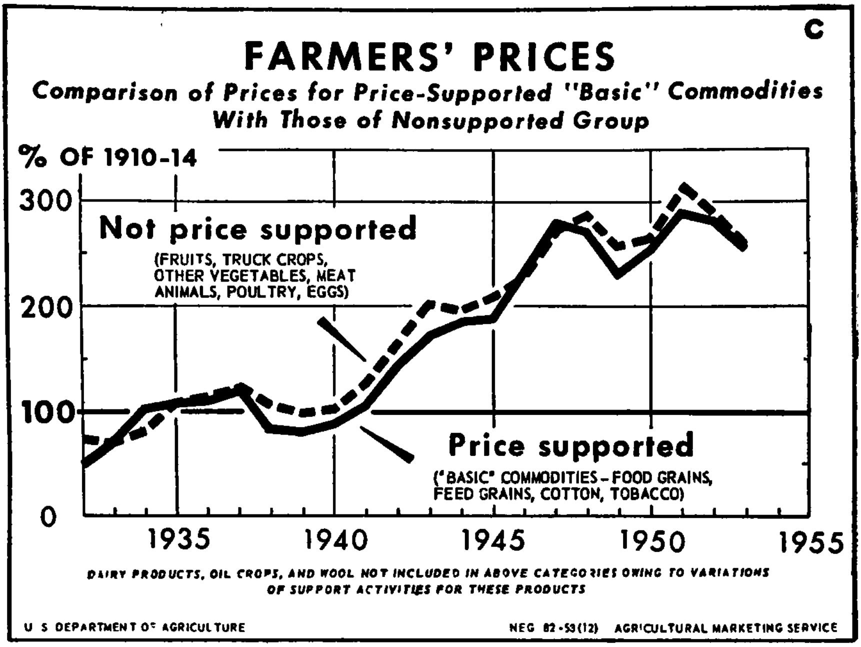
As of January 8, 1954, Commodity Credit Corporation had outstanding loans on 5,739,512 bales of 1953 crop cotton.

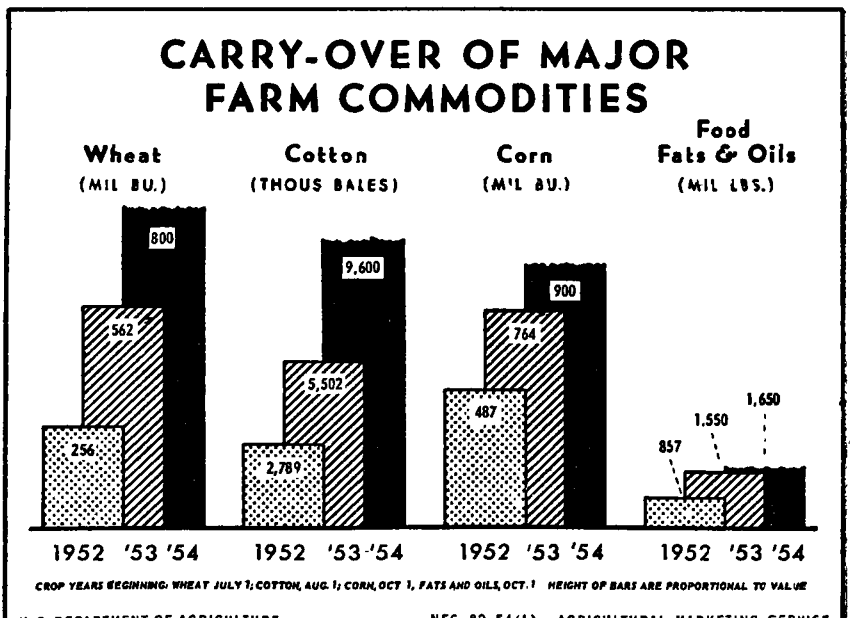
This compares with total outstanding loans on 1,216,537 bales of 1952 crop cotton on January 9, 1953.

In addition, as of January 8, 1954, CCC had outstanding loans covering 1,712,582 bales of 1952 crop cotton. These loans are being carried on a "past due" status. Producers have been given until July 31, 1954, to make redemption.









Chairman WOLCOTT. Mr. Secretary, would you care to discuss these charts a little?

Secretary BENSON. If you will turn to schedule I, please, it shows the report on price-supported commodities as of January 6, 1954, based on the records of known commitments from the various commodity offices. This picture, of course, is changing daily. In fact, the commodities are moving under loan very rapidly at the present time. This shows a total investment as of January 6, as revealed in that last column at the bottom, of something over $2.6 billion. The biggest item, of course, is wheat, particularly, which represents well over $1 billion. Another item is corn. But the picture is changing daily.

The next chart shows the situation a year earlier, January 5, 1953. You will note the total figure there is just slightly over $1 billion, which means that the amount in Commodity Credit hands on January 6 of this year compared with a year ago was about 2½ times as great.

Then the third schedule shows a comparison of crops under loan in 1953 and 1952. The list of the commodities on the left shows the totals for 1953 in thousands of bushels and then the totals for 1952 in thousands of bushels. That table shows by commodities the quantities of the 1953 crops other than cotton placed under loan and purchase agreements by farmers through December 15, 1953. I should mention again that the commodities are moving under loan very rapidly at the present time.

Then if you will turn to chart A, please, this is an attempt to show in a pie diagram the CCC investments in farm commodities. The smaller circle to the left shows those investments as of November 30, 1952, and totals about $2,200 million divided as the chart indicates, the largest single item being wheat, which is almost half; other items, corn, tobacco, cotton, and total dairy products. These have all increased, of course, through the last year.

The diagram on the right shows the situation as of November 30, 1953, with a total of about $5.2 billion.

Senator DOUGLAS. Mr. Chairman, might I ask a clarifying question on this chart? It is not a policy question, just a clarifying question.

Chairman WOLCOTT. If the Secretary does not mind being interrupted.

Secretary BENSON. Of course.

Senator DOUGLAS. If you would have a chart for the present moment, it would be $6,750 million instead of $5,200 million?

Secretary BENSON. I think not quite $6,750 million, Senator, but approaching that.

Senator DOUGLAS. So that you have an increase of approximately $1,500 million during the months of December and January?

Secretary BENSON. The increase appears to be more rapid now than it has been at any time.

Senator DOUGLAS. This is just arithmetic on my part. There has been an increase of approximately $1.5 billion in the past 2 months.

Secretary BENSON. It is pretty close to that, Senator.

Representative BOLLING. Mr. Chairman, that raises a point on which I would like to ask a question.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. Mr. Secretary, when that bill that is now, I believe, in conference, having to do with the Commodity Credit Corporation, was on the floor of the House, I inquired as to how it was possible for the House and Senate to be confronted with a situation which in effect amounted to being told on Monday that by 10 days from then there would be absolutely no money left to operate the Commodity Credit Corporation program, and I inquired in that debate, without receiving any particular enlightenment as to how it could be that in a program so vast, with such enormous amounts of money involved, it would be possible to make an error in judgment so great that instead of handling it in a routine fashion through the legislative committees, it was necessary to ask for crash legislation to keep the program going.

I would like some enlightenment on that question.

Secretary BENSON. The request, of course, was based on the latest reports which had come to us on the movement of commodities under loan. Those movements were much greater than we had anticipated, even a matter of a few days or a few weeks earlier. That was one factor, and one rather important factor.

Then we had estimated the redemptions—you see, the farmers may take up their loans and it is not possible to estimate very accurately to what extent they will take up their loans. So there must have been some error in that estimate, also.

The matter was submitted to the Congress some few days ago, as you know, but I do not know that there is any other explanation than the one I have just mentioned. Of course, the recommendation was made in the President's message, that there be an increase in the borrowing authority of the CCC, and the restoration of the impaired capital. I do not know whether Mr. Wells would like to comment further on that.' He has been a little closer to it than I have.

Mr. WELLS. I think that covers it.

Secretary BENSON. I think that covers it.

Representative BOLLING. The President's recommendation, of course, was that we follow the usual and orderly procedure of increasing the borrowing authority and it startled me then and it startles me now that it would be possible to make a miscalculation in those proportions, because I see here in your chart B that apparently when this chart was prepared—and I guess it was prepared, from the little figure at the bottom, in December 1953—that you did not anticipate exhausting that borrowing authority of $6,750 million until approximately June of this year. So it was a miscalculation of enormous proportion; is that correct, sir?

Secretary BENSON. It certainly was an enormous estimate. We will have to take part of the blame for it, I am sure. We did not anticipate—of course, we were basing it largely on previous years' operations, and this year the commodities are moving under loan much more rapidly than they have done in previous years.

Representative BOLLING. Now, what implication do you draw from the fact that these commodities are moving under loan at a much higher rate of speed than they did last year in relation to the condition of the farm economy generally, at least, in the price-supported fields?

Secretary BENSON. I think one of the major factors is the fact that farmers are concerned that prices may go down. They have declined even under the price-support program, as you know.

As I mentioned, the price support is 90 percent on the corn, but the market price is actually only 79 of parity. In the case of wheat, it is only 82. They can see the great accumulations of surplus overhanging the market, and I think they realize that something must give. Farmers are pretty smart in analyzing their own problems, and I think there has been that very definite reaction of fear of these accumulating surpluses and what eventually will happen.

Representative PATMAN. May I ask a question, Mr. Chairman?

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. I want to ask one about the basic farm program, Mr. Secretary.

Do you believe that more consideration should be given in making these allocations and in effect granting benefits to the farm family rather than basing it so much on the land?

Secretary BENSON. We feel that one of the weaknesses of the present program is the fact that it is tied to the production of the individual farm, and seems to favor the rather large, commercial type of operation. It misses largely some 3 million to 3,500,000 of the small family-type farms, which are rather small and noncommercial, and it is because of that the President and the Department have directed that the National Agricultural Advisory Commission during this next year devote its studies largely to the need of the lower-income farmers.

Representative PATMAN. The 3,500,000?

Secretary BENSON. The 3,500,000.

Representative PATMAN. Let us take the case of a worker who has been in a defense plant for several years. He is a farmer, and has always, until his defense job, been a farmer, but he is not living on a farm. He is living near the defense plant, but now wants to go back to the farm. What encouragement does he have now to go back? How would he have to start in? Where would he go to get backing, credit, supplies, and an opportunity to farm?

Secretary BENSON. I think probably the most logical agency, so far as Government agencies are concerned, to assist him, would be the Farmers Home Administration, which is set up, as the Congress has provided, to make loans to the small farmer, the low-income farmer. It is set up to handle more or less distress cases.

Representative PATMAN. I see.

Secretary BENSON. We are using the Farmers Home Administration, probably as you know now, in the emergency loans in connection with the drought in several States. Congress provided the funds and that was the logical agency through which those funds should be loaned to needy cases, both emergency livestock loans and also what we call economic disaster loans.

Representative PATMAN. I am glad that you are concerned about these 3,500,000 people. They are not engaged in a business or an occupation. I consider that they are just engaging in a mode of living, like so many of the farmers have, over a long period of time. But if we do not keep those mode-of-living farmers going, I think it is going to affect our economy substantially. Do you not agree with that?

Secretary BENSON. Yes, I agree with that, and of course, I think that is one of the reasons why we need to get some flexibility into our program and in order that there should be some fluidity of movement from one occupation to another, a part-time occupation.

Representative PATMAN. One other observation, and I will not take up any more of your time. I notice a lot has been said about what is being done for the farmers, and about subsidies and similar matters. It occurs to me that when you measure that in the same kind of terms with the same logical or illogical reasoning as would apply to other businesses or industries, that the farmers are not getting so much. In fact, what they are getting goes to help the entire economy. I am thinking about the future, on the preservation and protection of their land, soil conservation and so forth.

I have no prejudice against the banks because they are receiving so many favors. I am for that. I am for a strong banking system and private banking system and profitable banking system. But as measured by what the banks are getting today, it is rather insignificant compared to what the farmers are getting. When we talk about the farmers receiving subsidies, I do not think we should just point them out as being the only ones in our economy that are being benefited so. Take this recent program of yours, under Commodity Credit. The banks would be greatly benefited there, and they are greatly benefited by being permitted to hold Government bonds. You know when they purchase Government bonds, they render no service whatsoever. It is unworked-for and unearned interest they receive. I am not saying that they should not have it. I think we should have a good banking system, a strong banking system. If it is necessary to have it that way, I am all for it. I am for them buying the Government bonds, up to a point with the credit that they create, as Senator Douglas has said, upon the books of the bank. Under the present arrangement however, not only do they keep those bonds and draw interest, but they keep the money there and lend it out, too.

So they are greatly benefited. Let us not just make the farmer the goat on these things when what he receives is insignificant compared with what the banks receive.

Secretary Benson. I am sure, that we have no disposition to single out the farmer. Our problem, of course, is with agriculture, and we are best acquainted with the problem there. I tried to outline the problem as we see it.

Certainly there are other segments of our economy that receive subsidies, as you mentioned, to a very large degree. But I do not know that that is a justifiable reason for our going too far in subsidizing any other group. I realize that the farmer should have some protection, as I hope the Congress will see fit to provide it, and I think in the President's recommended program there is provision for it.

Representative Patman. I do not look with favor on singling the farmer out for all this abuse, and throwing the words "subsidies" and "handouts" at him. I feel that what the farmers get is helping the country more than what some other groups are getting.

I think the city people generally agree that the farmers must be prosperous. I have known Members of Congress from cities running for office when their opponents would point to them and say, "Now, this man, a Member of Congress, has been voting to increase your cost of living, the amount that you pay for bread and for butter, and for everything else." But that Member can come right back, and says: "We are doing it in the interest of the entire country."

They have been doing that for years. There are Members of Congress from New York City and Chicago that have a better record for the farmers of this country than the Members from the farming sections. They have been meeting this thing for years. The city consumers, I think, are reconciled to the fact that it is in the national interest. I certainly hope nothing is done to incite a feeling against the farmers on the part of the city consumers, because they are pretty well reconciled.

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Secretary BENSON. I would agree with that, Congressman Patman. I have spent a good part of my life trying to build up the friendliest of relationships between agriculture and other economic groups, because agriculture is so dependent upon them, as they are dependent upon agriculture.

Representative PATMAN. I know you have.

Secretary BENSON. There is a interrelationship.

Chairman WOLCOTT. Perhaps, we should let the Secretary proceed with the discussion of the remaining charts.

Secretary BENSON. If we could turn to chart B for just a moment—that has already been referred to, on the borrowing authority of the Commodity Credit Corporation—you will note that back in 1950, the authority was increased from $4¾ billion to the present $6¾ billion, and now we are faced with the increase which the President has requested of $8½ billion. In view of the reports which have come from our commodity offices in recent weeks, we are right now studying the question of whether $8½ billion will be sufficient, as the picture is changing daily. We hope that by the time hearings are held on it, we will have more complete information.

Chairman WOLCOTT. We assume from what you have said that, adjusting the farm economy to the economy in general, the loan requirements for Commodity Credit would in all likelihood be $8,500 million rather than $6 billion or $7 billion? That is what you want?

Secretary BENSON. Yes. That is the request that has come up.

Now, chart C is an attempt to show the relative level of prices for those products that have received the benefits and the help of price supports and those that have not been supported. You will note that there is a very close relationship between the two levels of those supported and those unsupported.

This points up one of the very basic facts in prices, and farm products, namely, that probably the biggest single factor is the movement in the general price level, general economic conditions. Farm prices are usually good when economic conditions are good and usually move up when the general price level moves up, and conversely when the price moves down, it usually affects adversely farm prices.

Now, the last chart, D, simply shows in bar diagram, graphically, the carryover of the major farm commodities for 1952, 1953, and 1954 for wheat, cotton, corn, and food fats and oils. The market year is a little different for these commodities, as the footnote at the bottom indicates. For wheat, it is July 1; cotton, August 1; corn, October 1; and fats and oils, October 1. The height of the bars indicates the proportionate value.

Chairman WOLCOTT. I assume that we may conclude that carryovers on main farm commodities are one of the biggest problems. You have mentioned in your statement what is being done to expand our foreign markets for agricultural commodities.

Would you care to comment a little further on that?

Secretary BENSON. We have felt through the years, in fact—I have felt for many years—that one of our major problems in agriculture is to expand our markets. When the farmer produces the commodity the job is only half done. The other part of it is to market his product. And so during the past year we have emphasized this question of development and expansion of markets. We have created in the

Department the Foreign Agricultural Service, which is set up particularly to work on and deal with problems of increasing our exports and developing new markets abroad. We feel confident that recently we have made a very great effort, generally speaking, of attempting to increase the marketing of our products abroad.

I think some of the other countries that compete with us on certain commodities have done a more effective job. And so we are organizing now, and we have already had some conferences on it and have preliminary plans made, for some trade missions to be made up primarily of men of the trade, who know marketing, foreign marketing. These trade missions will go abroad and help to develop new outlets and expanded outlets for our farm commodities, particularly those of which we have a considerable surplus.

Then in addition, we have also established for the first time in the history of the Department, an agency known as the Agricultural Marketing Service, in which we have brought together all of the marketing work and the Department heads under the one agency, the purpose being to focus more attention on this great subject and problem of marketing farm products.

Senator DOUGLAS. Mr. Secretary, would lower tariffs on our part on manufactured goods coming into this country enable foreign countries to buy more farm products from us?

Secretary BENSON. Of course, the question of stimulating trade with countries, abroad, Senator Douglas, is a very important matter. It is a two-way street, and we think that the farmer has a vital interest in this whole question of trade abroad.

Senator DOUGLAS. Is this interest in the direction of lower tariffs on manufactured goods?

Secretary BENSON. I think ofttimes some lowering of tariffs may stimulate greater trade——

Senator DOUGLAS. Under the present situation, would you favor lower tariffs on manufactured goods?

Secretary BENSON. At the same time, we have, of course, some obligation to give some necessary protection to our industries.

Senator DOUGLAS. You read the report of the Randall Commission. Do you subscribe to that?

Secretary BENSON. Well, I have read it only very hurriedly.

Senator DOUGLAS. It is an important report, Mr. Secretary. I call your attention to the suggestions of Mr. David J. McDonald in the Randall report that Government aid be given to industries injured by increased imports. There is merit in the McDonald plan. It would soften whatever shock might come to some industries from lower tariffs. I do not intend to allow our industries to suffer. You know that the Randall Commission report calls for giving the President discretionary power to reduce tariffs up to 15 percent?

Secretary BENSON. Yes.

Senator DOUGLAS. Do you favor that?

Secretary BENSON. I think the President should have some discretionary authority.

Senator DOUGLAS. Fifteen percent?

Secretary BENSON. I do not know what percentage.

Senator DOUGLAS. But do you think he should exercise that discretion or just merely have the authority on condition that he should never use it?

Secretary BENSON. I would assume that if he had it he would use it, in the interest of the welfare of the country. Otherwise, there would be no purpose——

Senator DOUGLAS. Do you favor lower tariffs on manufactured goods in order to expand foreign demand for our farm products?

Secretary BENSON. I am not enough of a student of that problem to judge it.

Senator DOUGLAS. It is vital to American agriculture, Mr. Secretary.

Secretary BENSON. If it would stimulate trade——

Senator DOUGLAS. Would it not stimulate trade? How can they buy from us if they are not able to sell to us? You can send all the foreign missions that you want, and they can talk until they are blue in the face. Unless they have ability to sell to us, how could they buy from us?

Secretary BENSON. Of course, insofar as agriculture is concerned, we have been forced under our present price-support program, as you know, to impose embargoes against certain importers, which we feel would be unnecessary if we had a little greater freedom in the operation of our program.

Senator DOUGLAS. In other words, you look for the expansion of American agriculture through reducing the prices of American farm products, rather than increasing the demand by foreign countries for American farm products?

Secretary BENSON. No. I think there will have to be some increase in demand. And I think the demand is there. But it does not just come automatically. You have to go out and work for it.

Senator DOUGLAS. And you think it could be done by conversation and by salesmanship rather than by reduction of tariffs?

Secretary BENSON. I think a lot of it can be done by salesmanship, certainly.

Senator DOUGLAS. How much by tariffs?

Secretary BENSON. That is a technical question. I do not know how much. Some of it no doubt could be.

Senator DOUGLAS. It is a very important question, and I think there is a sort of economic schizophrenia on this point within the ranks of the administration, and the majority party, on this point, which needs, for the mental health of both the party and the country to be cleared up.

Senator CARLSON. Mr. Chairman?

Chairman WOLCOTT. Senator Carlson.

Senator CARLSON. Mr. Secretary, right on the point that the Senator from Illinois has been discussing—and that is our foreign trade and agricultural products—I am greatly concerned about it, and I am pleased to note that you are taking steps to improve our situation with foreign trade. It is most discouraging to notice in your statement that our agricultural exports declined 31 percent in a year. I think I can talk mostly about wheat because, if you will permit a little chamber of commerce talk, Kansas produces one-fourth of the winter wheat in the Nation.

Secretary BENSON. Yes, I know.

Senator CARLSON. And we are concerned about export markets. One thing that does concern me in our farm exports is this, that if my figures are correct, we exported about $2,800 million worth of farm commodities last year. The average, I believe, for the past 5 years, has been somewhere around $3,500 million, and I think we reached a maximum of probably $4,500 million. But at the same time, if my figures are correct, with an industrial export of some $15 billion, we increased the industrial exports.

Now, that situation concerns me greatly under a reciprocal trade agreement program. After all, this trade of ours is not just going out and selling goods. We have entered into these agreements, where nations take industrial goods, where we get our commodities and agricultural products in under the trade. I sincerely hope that your Department and the State Department will give some thought to giving agriculture what I would say is its fair share of the export market. I wonder if you have any comment on that.

Secretary BENSON. One of the encouraging things, Senator Carlson, is the fact that in recent weeks there has been an upturn in the export of agricultural commodities. Of course, there has been a recovery of world agriculture, as you well know, that was seriously disrupted during the war. We had a very heavy foreign-aid program following the war. Our exports went to unprecedented levels, and we are getting back to a peacetime economy. There is bound to be some adjustment. But I think the encouraging thing is that we have had some upturn in recent months, and I think that if we get a little more flexibility into our program, we can compete more effectively with countries like Canada and others that are in the world market bidding for that market. We are moving quite a lot, as you know, under the wheat agreement program, but the amount outside the program during last year declined somewhat, because Canada apparently was in a stronger competitive position.

Senator CARLSON. Speaking for the moment, only of wheat, I noticed by your statement that we will have an estimated carryover of surplus next July 1 of 800 million bushels or more.

Secretary BENSON. Yes.

Senator CARLSON. That, as I understand it, is more than the consumption of this Nation in 1 year.

Secretary BENSON. That is correct.

Senator CARLSON. It creates a problem that concerns every wheat grower, and is of concern to our Nation as a whole. I notice you are going to set aside, according to your recommendation, $2,500 million of farm products, or commodities. I believe you used the term "insulated"—or put them in reserve. Have you made any breakdown as to what percentage of the various basis commodities you plan on putting in that reserve?

Secretary BENSON. We have reached no final figures, commoditywise, Senator. We have the matter under consideration. We assume that the Congress, of course, will give attention to that.

We have recommended an overall of $2½ billion which we assume would be made up largely of wheat and cotton as the major items, and probably some oils and fats.

Of course, one of the big factors has been the expansion, as you know, in the wheat acreage. A lot of new land has been brought in during the inflationary period of the war, under the incentive which was offered in order to get maximum production.

Senator CARLSON. If you will permit an interruption. The farmers were encouraged to do this.

Secretary BENSON. Yes.

Senator CARLSON. The Government itself is thus partly responsible for these great surpluses.

Secretary BENSON. Indeed, I agree with you fully, Senator. There was an inducement, a wartime inducement, to get maximum productions. And the farmers have always responded wholeheartedly, and I think they did a magnificent job in the production which they brought forth. That is one of the reasons why we feel we are in a relative strong position when we go abroad and meet representatives of other countries, because they are a party to this also. This expansion was called for in a joint war effort, and these surpluses concern them, and they have some moral obligation, too.

We feel that much can be done to get some of those countries to help us out in moving some of these surpluses. They are going to hang over the world markets unless we move them into consumption, and will affect their price levels as well as ours.

Senator CARLSON. I share Congressman Patman's concern in regard to the publicity and to what may be the general effect on the national economy as a whole from what seems to be an impression that great stockpiles of surplus food are being created here costing the Government billions of dollars.

In the first place, I am wondering if it is not to the interest of the consumer to have a good supply. I will not say the large surpluses which we do have. They are burdensome and agriculture is concerned about them. But we do have some problems that are of vital interest to the consumer, that is, to have supplies in the first place, and in the second place we put them in the show window through this Commodity Credit Corporation loan.

I am wondering if any thought has ever been given to this idea:

We invest hundreds of millions of dollars in strategic materials in stockpiling. Would it not be reasonable to set aside a certain amount and stockpile some of these food surpluses just as we do other critical war materials? No one ever objects to spending hundreds of millions of dollars for other strategic war materials. I wonder if some thought could not be given to that?

Secretary BENSON. I am sure it should be. And thought is being given to it, Senator.

It is a matter of policy, of course. That is, as to what extent we should store these commodities. Some of them, of course, are somewhat perishable.

Wheat is semiperishable. It can be carried a good many years by revolving the stocks. Cotton can be kept almost indefinitely, so far as we know.

We are learning very quickly that you cannot keep butter very long. And there are certain other perishable commodities. You remember what happened when we tried to put a support level under potatoes. You cannot keep them from 1 year to the next. They have got to move out into channels of trade annually. Of course, we do not want to have any repetition of the potato fiasco.

We are concerned about the pressure of supplies on storage facilities. I am sure you know the effort that was made last year to increase our storage capacity. We have subsidized the building of storage. We have given a use guaranty to private concerns to increase our storage—have guaranteed them a certain percentage use of their facilities through a 3-year period. We have offered loans to farmers to encourage them to store more on their own farms. We now have wheat stored in boats, 125 of them.

And we are planning to put wheat in some more boats. If our present negotiations work out, we will do that.

But the pressure of supplies on storage capacity is one that worries us very, very much. Of course, it is one of the reasons why, instead of farmers getting 90 percent today, they are only getting 82 percent, because some of the farmers are just unable to put their wheat in position or to qualify for storage, and, therefore, they are not entitled to the loan.

Senator CARLSON. I want to commend you for the farm-storage program that is in operation now. I am somewhat familiar with it. I think it shows good judgment to build some of these grain storages in the central section, in the grain areas, instead of trying to get it all in Buffalo or Galveston. I think it is showing good judgment. I am confident that in the long run it will be a program that will pay out and be of value to the Nation as a whole.

Secretary BENSON. Thank you.

Senator DOUGLAS. While my good friend from Kansas has been giving this testimonial of affection, I hope that the Secretary will not take it amiss if I produce some evidence about Illinois.

The support price for wheat in the wheat-growing regions of Illinois—we grow about 50 million bushels—last year was $2.31 a bushel, but the wheatgrowers in Illinois in reality only received at the elevators from $1.60 to $1.85 a bushel.

The support price on corn in the corn-growing counties of Illinois was $1.61 to $1.62 a bushel. So, practically, the farmers only received from $1.30 to $1.38 in October.

You can verify these quotations from the Decatur Herald Review, generally published on page 8.

Secretary BENSON. Thank you.

Senator DOUGLAS. There was insufficient storage in my State. As a consequence, the farmers, instead of getting 90 percent on corn, actually received from 73 to 77 percent, and on wheat received from 67 to 74 percent. I would not have injected this had it not been for your very eloquent praise of the storage program. I can only say that in the State of Illinois it did not work last year.

Senator CARLSON. I am sure Mr. Secretary, that you can answer this better than I can, but I want the distinguished Senator from Illinois to know that for the first time in the history of this Nation, so far as I know, the Department issued orders that permitted the storage of wheat on ground after harvest last year, and made loans on it.

Senator DOUGLAS. I can only judge by results. As the Secretary with characteristic candor said, the average for the entire country at present is only 82 percent for wheat instead of 90 percent; for corn, 79 instead of 90 percent.

I, too, want to commend the Secretary, but to commend him for his candor, rather than for his storage program.

Secretary BENSON. I am sorry. I was just going to make two additional comments. If there is anything further we can do to improve the storage program, we want to do it, of course. We thought we had gone about all of the way when we offered to make loans to farmers on grain stored on the ground. Fortunately, we do not have to make many loans for grain stored on the ground. The very fact that we offered to do it opened up some storage that was being held apparently for speculative purposes.

There is one other point that I should mention. Senator Douglas has mentioned the acreage of wheat and the production of wheat in Illinois.

One of our problems has been the increase in wheat acreage in areas that do not grow much wheat. Some of our most acute storage problems have been here in the East and not out in the great Wheat Belt, and because of the increase in acreage in production in the East because of the favorable, relatively favorable price under the support program.

Senator DOUGLAS. May I read you from my favorite financial journal, the Wall Street Journal? I tried to get Congressman Bender to subscribe to this, and even offered to give him a free subscription. There is a column on the right-hand side of the page of this morning's, February 4, issue, an article entitled "Homeless Grain":

> The present storage space is not enough to house expected 1954 surplus. New bins, use of more idle ships would still leave 280 million bushels over.

And that is by Gene E. Miller.

Secretary BENSON. We get it at the office.

Senator DOUGLAS. I will be glad to subscribe to this journal for you.

Senator CARLSON. The Senator from Illinois has been reading the Wall Street Journal practically every day. I believe he plants those stories in advance.

Senator DOUGLAS. I do not agree with many of the political views of the Wall Street Journal, but I have found it scrupulously accurate in the reporting of economic facts. And I want to commend the publishers and the editors for this. I only wish that those who subscribe to the political philosophy of the Wall Street Journal would pay more attention to the economic facts as revealed by the Wall Street Journal.

Senator SPARKMAN. Mr. Chairman, I have not entered this discussion about the Wall Street Journal. I was about to suggest that we ought to investigate any connection between Paul Douglas and the Wall Street Journal. He is advertising it so well.

I would like to ask several questions of the Secretary covering several different things. I want to express my appreciation for the statement that you have given, for the perfect frankness and candor with which you have dealt with the agricultural problems, not only before this committee but I believe at all times.

Secretary BENSON. Thank you, Senator.

Senator SPARKMAN. I have not been able to agree with you in all of the things that you have said. I do appreciate the frankness and the candor and the honesty with which you advocate your principles.

The question was brought up a few minutes ago about the little farmer. Congressman Patman refers to him as the "mode of life farmer." We have often heard it said—I have all of my life—that farming was not just a way of making a living, it was a way of life.

I have been a little farmer all of my life, and I believe I know something about the problems of the little farmer, particularly down in my area, where cotton is the principal cash crop.

I have been very much disturbed with some of the things that I have seen in the papers. I do not vouch for the accuracy of them. They relate to some speeches that Mr. True Morse has made, in which the inference was drawn that, perhaps, we ought to get rid of the marginal farmer.

Frankly, I just cannot see a type of agriculture that would be purely commercial and without this "mode of life" farmer. I wonder if that is in accord with your views?

Secretary BENSON. No; it is not in accord with my views nor in accord with the views of Under Secretary Morse either.

Senator SPARKMAN. I am glad to hear you say that, I assume that you have seen these references; have you not?

Secretary BENSON. Yes.

Senator SPARKMAN. And the implications?

Secretary BENSON. They have been answered several times. He was misquoted in the papers on that point, I mean. Certainly, we have a very intense and sincere interest in the small farmer.

I, too, was raised on a small farm, and spent most of my life there, an 80-acre farm. And I know something of the problems of a small farmer.

Of course, the very fact that the President has directed with our wholehearted approval, that the Commission this next year devote its major time to this one problem, is evidence of the interest which we have in the small farmer.

Representative BOLLING. Will you yield at that point?

Senator SPARKMAN. Yes.

Representative BOLLING. I would like to read into the record certain portions of the President's Economic Report. On page 92, near the end of the first whole paragraph it says:

> This will require both a continuing shift of underemployed farm people into more productive work and a substantial influx of capital into agriculture.

And then further down it says:

> Over the long run the pockets of poverty which persist in American agriculture will be most effectively reduced by the growing opportunities for nonfarm employment that accompany the expansion of the economy.

If I read that correctly, there is a clear implication that people who are marginal in farm fields, perhaps should get out of that field and move into other areas.

The question that concerns me there not only is the apparent confusion, but also in a period of rising industrial unemployment, where is the salvation of the underemployed farmer in moving in to and adding to that industrial unemployment?

Secretary BENSON. Certainly, we are not advocating the plowing under of every fourth farmer in order to reduce the number.

I hope that our people in all parts of our economy will have freedom of choice always to go where they think they can do best. I think that is in the interest of agriculture as it is in the interest of other segments of our economy.

There was a time, as you know, when 60 to 80 percent of our people lived on farms. Because of the increased efficiency of the farmer, and so on, we have now only 15 or 20 percent living on farms.

So there will be some shift, no doubt, but at the same time we feel that we ought to give special considerations to the problems of the small farmer, because, certainly, they are not benefited to any great extent by the present support programs on the basic commodities.

Senator SPARKMAN. Mr. Secretary, I want to examine that question a little later, but let me ask now—I did not cut you off?

Secretary BENSON. No; I am through.

Senator SPARKMAN. About 3 or 4 years ago a subcommittee of this committee, of which I had the privilege of being the chairman, made a study of underemployment in rural areas. Have you, by any chance, seen that report?

Secretary BENSON. Yes; we have it. I am not familiar with the details of it, but the members of my staff are familiar with it.

Senator SPARKMAN. And we came up with a good many recommendations. It was a bipartisan report, by the way, in which we went into this pretty thoroughly.

Now, I noticed in your prepared statement you say that the present support program was not helpful to the little farmer. I want to differ with you on that. I just want to use this as an example:

Take a little farmer who may produce, we will say, 5 bales of cotton. The price of cotton during this past year was approximately 32 cents a pound, just slightly under the loan value, enough to keep some balance but not too much in the market. That means that on each bale of cotton, he would get $160 or $800 for those 5 bales.

I am of the opinion that had there not been a price support program that farmer would have been lucky to get 20 cents for his cotton under this past year's production, or $100 a bale or $500 for the 5 bales.

That $300 difference, probably, would be more than what represented the profit or the real earning of that farmer and his family in those 5 bales of cotton; in other words, I think that price support on cotton this past year, that is this past year, just using that as an example, made the difference between that little farmer being able to buy winter clothes for his family and perhaps buy some one appliance for the home like a washing machine or a radio or something of that kind and his not being able to get any of those things.

I just think those figures are realistic—in fact, I know they are.

Secretary BENSON. Of course, I pointed out that proportionately the larger operators stand to benefit much more.

Senator SPARKMAN. I agree with you on that, but I thought you made the rather flat statement that it was not beneficial to the small farmers.

Secretary BENSON. No, no. It is beneficial to a degree, but relatively not as beneficial as it is to the larger operator. The small farmer has some special problems, Senator. We feel he has a special problem and that the present program is not meeting that need. It is not meeting the need of that special problem which the small farmer has, as your committee recognized when it made its study some years ago. And it is to those special problems that we feel there should be directed special attention during the ensuing year.

Senator SPARKMAN. I want to say that I agree with you fully, that it is not meeting the need, but, certainly, it is a lifesaver at the present time. My thought is it ought to stay there until a program is developed that will meet those problems.

Secretary BENSON. Of course, there is no intention of removing the program from cotton.

Senator SPARKMAN. But removing it gradually so that the shock will be less. I just do not believe that the farmer, the small farmer, ought to be required to go through another year of uncertainty, knowing that a degree of the shock is coming next year, of course, by reason of the fact that he knows that he is going to get part of it this year.

I think the prices in farm products were depressed this year because of the uncertainty as to what would happen to the program. And when I say "this year," I mean the past crop year. And that was because of the uncertainty as to what would happen at the expiration of the price-support program this year.

Secretary BENSON. There is no change in the program for this year.

Senator SPARKMAN. I realize that, but the uncertainty as to next year and the years in the future hurts.

Secretary BENSON. I think that there has been provided a very sound and gradual transition in the flexible program which need not mean any shock. It depends somewhat on how those surplus stocks are set aside and how they are handled, and we feel that it will bring better balance into our whole agriculture and in the long run will result in more income to the farmers. Otherwise, we would not recommend it.

Senator SPARKMAN. I certainly do not want to be understood as saying that the present program is the final answer. I do not believe that flexible supports are the final answer. I think the final answer is a much broader one than that. I think it involves this element of foreign trade that Senator Douglas mentioned. I think it involves better marketing here at home and better distribution to those who need it, a strengthened soil-conservation program, and by all means a better credit system that will enable that small farmer to convert. I think one of the weaknesses of the philosophy behind the flexible support program is the idea that it will bring about among the farmers a conversion to other crops that are needed, because farming simply cannot be turned on and off like a water spigot. The average small farmer that I am talking about does not have the capital or the availability of capital to make it possible for him to change from one crop to another.

In my section of the country, the banking system simply is not geared to take care of it. I cannot speak for other sections, but I am of the opinion that it may very well be true in other sections of the country, too.

Secretary BENSON. Of course, I think, Senator, whether we like it or not, if we go in the present direction there is going to be some flexibility in the price system that is already in evidence.

Senator SPARKMAN. I do not advocate the present system as a permanent program, but I do believe that we ought not to get away from it, and we ought to let the farmers know that we are not going to get away from it, until we have something to substitute for it.

That will, at least project the farm economy along at no worse level than it is now.

Secretary BENSON. I think that the President made that very clear in his special message on agriculture. We are not going to get away from the program that will give protection to the farmer. In fact the 1948–49 act which was basic legislation and bipartisan and the result of very careful and prolonged study by the Congress, provides some flexibility, it is true, but it certainly provides protection and help. And we believe it will be in the best interests of the farmer in the long run, as the Congress thought it would when they passed that legislation.

Senator SPARKMAN. Well, I voted against it at the time. And I am still against it. I think the philosophy is unsound, that under it you offer a high support at the time of a short crop when the farmer does not need any support, the law of supply and demand will take care of it, and a low support at the time of a big crop when the little farmer is absolutely helpless. He cannot hold his crop.

By the way, you talk about it being helpful to the big farmer rather than to the little farmer. The big farmer ordinarily can hold his crop if necessary, or he has the capital to convert to change from the production of one thing to another, whereas this little mode-of-life farmer has neither the ability to hold the crop nor the capital with which to change.

Secretary BENSON. I think that you must recognize this fact, though, however, that no Government even as powerful as ours, can go on guaranteeing a fixed price.

Senator SPARKMAN. I do not consider it a permanent program, but I believe we ought to stay at it until we do work out one.

Secretary BENSON. I think that there is no better time to start the change than now, at least.

Senator SPARKMAN. I think it is the worst time in the world, because farm prices are at the bottom.

Secretary BENSON. Probably there will never be an ideal time to make a change, but we certainly are not in a war economy any more. This is a peacetime economy.

Senator SPARKMAN. No, but, Mr. Secretary, we are at a time of threatened—I will not use the term—I will say of bad economy—a threatened bad economy. And the segment of our economy that is suffering most today is the farmer. It has already started a chain reaction that I hope will not run on endlessly, but I believe that the imposition of a program that produces any shock whatsoever is going to stimulate that chain reaction that is already running, I think, in a threatening manner.

Chairman WOLCOTT. Do you use the term "rolling economy?"

Senator SPARKMAN. I am not using any of those terms, because I fear I might be called a prophet of gloom.

Secretary BENSON. You also have to keep in mind that there is only 23 percent of our farm marketings that are covered by these supports. Most of the agricultural economy now is outside of this emergency program.

Senator SPARKMAN. That is true.

Secretary BENSON. And in fairness to the entire industry, to all farmers, it has seemed to us and it has seemed to the President, that this flexible program which would apply across the board is fair.

Senator SPARKMAN. Would it apply to perishable products, all perishable products, fresh vegetables?

Secretary BENSON. There is flexibility now at the discretion of the Secretary on the perishables and on the feed grains. Of course, in addition there are four of the basic commodities that are still under the old parity, as you know, which gives them a distinctive advantage.

It is not possible for me, at least, to defend the old parity concept, in view of what has happened in recent years. We have gone to the new, modern parity on all of the items except four.

This program provides for a transition to the new parity, but permits a year of lag in order that the transition be easy, that there be no shock.

Senator SPARKMAN. A 5-percent shock only?

Secretary BENSON. Well, it may not be.

Senator SPARKMAN. In 1 year?

Secretary BENSON. A maximum.

Senator SPARKMAN. A maximum, yes.

Secretary BENSON. Not more than 5 percentage points shift.

Senator SPARKMAN. Yes, sir.

Senator DOUGLAS. In the case of wheat, what would the new parity be as compared to the old?

Secretary BENSON. There is a difference, as I recall, Senator Douglas, of about 15 points.

Senator DOUGLAS. That would be roughly 40 cents a bushel?

Secretary BENSON. About 35 cents, I think.

Senator DOUGLAS. It would require a fall of 35 to 40 cents a bushel for wheat. How much will it be in corn?

Secretary BENSON. The difference between the old and the new, in the case of corn, is about 10, I believe.

Senator DOUGLAS. Ten points or 10 cents?

Secretary BENSON. Ten points.

Senator DOUGLAS. That would be a fall of roughly 15 cents?

Secretary BENSON. About 15 cents, yes.

In the case of peanuts, we have the greatest difference. There is a difference of 23 points.

Senator SPARKMAN. Wait a minute. Translate that into dollars for me, will you?

Secretary BENSON. In other words, the present price support represents 90 percent of old parity but 113 percent of new parity. Translated into dollars and cents per pound I would have to check on it.

Senator SPARKMAN. Would it be about forty-six or fifty dollars a ton, would it not?

Secretary BENSON. About 2 cents a pound.

Senator SPARKMAN. Pretty close to $50 a ton, I believe.

Secretary BENSON. Something like that.

Senator SPARKMAN. They sell for a little better than $200 a ton now.

Senator DOUGLAS. I would like to get this straight.

Secretary BENSON. But the change only would go at the rate of 5 points per year, as a maximum.

Senator SPARKMAN. It would be a third, about $15?

Secretary BENSON. Yes, sir.

Senator DOUGLAS. May I follow this up. You say that the new parity will be 10 percent below the former?

Secretary BENSON. Ten points below.

Senator DOUGLAS. So that the old parity was roughly $1.78 and the new parity would be $1.60?

Secretary BENSON. Yes; that is roughly correct, I think.

Senator DOUGLAS. Then you want to go from 75 to 90 percent which would be from $1.20 to $1.44—that would be the range, that is, if $1.60 is the new 100, 90 would be $1.44 and 75 percent would be $1.20?

Secretary BENSON. Yes; that is approximately it.

Senator DOUGLAS. Provided you have the storage now.

Chairman WOLCOTT. For the benefit of the committee may I say, that the Secretary finds it inconvenient to be here later than 12 o'clock. There are some members of the committee who would like to address certain phases of this subject. We do not want to stop anybody, but I think that we should respect the Secretary's wishes in respect to the time.

Senator SPARKMAN. May I then just ask two very fast questions? Will you continue and give it on cotton, along the line Senator Douglas was asking you about?

Secretary BENSON. The figures?

Senator SPARKMAN. Yes. And insert the whole thing in the record?

Secretary BENSON. Yes; we will be glad to do that if you would like us to.

Senator SPARKMAN. And if you will translate it into cents a pound or dollars a ton, or whatever it is?

Secretary BENSON. We can do that.

(The information referred to follows:)

Parity prices according to the old and new parity formulas and average prices received by farmers as of January 15, 1954, are as follows:

Commodity	Unit	Old parity price	New parity price	Effective parity price	United States average price received by farmers
Wheat	Bushel	$2 48	$2 13	$2.48	$2.03
Corn	do	1.80	1.61	1.80	1 42
Cotton, American upland	Pound	.3472	3353	.3472	.3005
Peanuts	do	.134	.108	.134	.111
Rice	Hundredweight.	5 07	5.47	5.47	5.41
Butterfat	Pound	.736	.747	.747	.659
Milk, wholesale	Hundredweight.	4.48	4.74	4.74	4.38
Hogs	do	20 40	20.70	20.70	24.60
Beef cattle	do	15 20	21.20	21.20	16.00
Chickens	Pound	.319	.299	.299	.238
Eggs	Dozen	.602	.468	.468	.463

Senator SPARKMAN. Just one other question and I will be through. Mr. Secretary, I have had this feeling that perhaps we were doing ourselves in this country a great damage, a long-run damage in creating a psychology to the effect that surpluses are a curse. They ought to be a blessing.

Secretary BENSON. I think that they are a blessing, if we can manage them.

Senator SPARKMAN. So the problem is management, rather than our ability to produce?

Secretary BENSON. Yes. Most of the world worries about getting enough to eat. We seem to be worrying somewhat more about surpluses.

Senator SPARKMAN. Do you think the day may come when our worry will be the production of enough, rather than surpluses?

Secretary BENSON. Only the good Lord can answer that.

Senator SPARKMAN. Thank you.

Representative BOLLING. I would like to obtain permission at this point to submit certain questions with regard to subsidies generally and with regard to various programs that affect the small farmer, that is, to submit them to the Secretary in writing.

Chairman WOLCOTT. I assume that will be agreeable and if agreeable to the Secretary, he may extend his remarks and the answers to questions, to such questions, and those such as Congressman Bolling will submit.

Senator WATKINS. I want to ask a few questions about the matter of storage. I am interested to know what the storage situation was in January 1953, when you took office.

Secretary BENSON. Well, of course, it was serious even then, Senator Watkins. It became increasingly serious during the year, but it was of deep concern to us a year ago.

During the year, however, we have taken various means to increase the storage available. I mentioned several things that we did. We thought that it was only right that we should do that. There is a limit as to how far you can go in that direction, however. That is the thing that worries us now, of course.

Senator WATKINS. You have not done away with any of the storage that was in existence when you took over?

Secretary BENSON. We have greatly increased it. We brought in 96 million bushels of new storage financed by Commodity Credit Corporation. We offered loans to farmers in addition. In addition, we provided for a use program, a guaranteed use program for private warehousemen, guaranteeing them a certain proportion that the warehouses would be filled with Government stocks if they would expand their capacity, which they have done.

Then we even went to the extent, as Senator Carlson has mentioned, of offering loans to grain stored on the ground. We have used ships wherever we could get them. We have done about all that we knew how to do or were able to do in the past year.

Senator WATKINS. This shortage of storage did not happen overnight?

Secretary BENSON. No, as a matter of fact, we feel there was ample justification for putting some control on acreage on the 1953 crops. And the decision should have been made in 1952. Of course, that is water over the dam. We have to meet the problem as it is today.

Senator WATKINS. I was somewhat surprised at my good friend Paul Douglas' statement about the storage problem when he knows, as a matter of fact, that the storage has been increased about all you could increase it, and that the real problem is not one that was created by you or the new administration.

Senator DOUGLAS. Since my good friend from Utah has imputed knowledge to me which I do not possess, I must interject at this point. I do not know any such thing.

The real test of the storage question is the degree to which the actual market price approximates the support price. The record will show that in 1952 the actual market price received by farmers at the elevators was very close to the support price. The big discrepancy has developed in 1953, as they did in 1948.

Senator WATKINS. Under a program which, of course, had been established many years earlier.

Secretary BENSON. In 1948 and 1949, Senator Douglas, there was not that close relationship.

Senator DOUGLAS. In 1948 there certainly was not. In 1949 it was pretty close. And in 1950 and 1951 and 1952 prices actually received by the farmers at the elevators were approximately the theoretical support prices, but not in 1953.

Senator WATKINS. I would like to say that I think that the Department is entitled to praise for what it did about the storage problem this past year.

Secretary BENSON. Thank you. Of course, most of the storage stocks we have are the 1952 production. In the case of corn we have some back to 1948. The 1953 crop is coming under now.

Senator DOUGLAS. Mr. Secretary, may I ask you to look at page 2 of your statement?

Secretary BENSON. Yes.

Senator DOUGLAS. I notice that in the third paragraph you used the January 1953, price or parity ratio.

Secretary BENSON. Yes.

Senator DOUGLAS. I do not know whether that choice at this time has any significance, but would you state what the October 1952 parity ratio was? Your Bureau of Agriculture Economics gives the ratio as 100. And the President's Economic Report, page 202, gives it at 99, so that prior to November 3, 1952, the farmers were receiving parity, and the decrease came after October 15, in the months of November, December, January, and so on. I think since you chose January 15 it is appropriate for me to mention October.

Secretary BENSON. Of course, we were choosing the most recent year, Senator.

Senator DOUGLAS. This administration took ahold. You remember the famous advertisement which appeared some years ago saying, "Coming events cast their shadows before." Now, Mr. Secretary, I am glad that you are worried about these surpluses of foods and fibers and dairy products, et cetera.

During the last 2 months we have had an admitted increase of at least a million in the unemployed. A good many of these people are getting into distress.

Why should not the Government give a considerable fraction of the surplus food which you do not know what to do with to the unemployed—butter, cheese, dried milk, processed wheat into flour, so as to combine hungry stomachs with overflowing graneries in storage?

Secretary BENSON. We have offered a great deal of it to agencies that can qualify under the present legislation. We are somewhat restricted, as you know.

Senator DOUGLAS. Why do you not advocate more expanded legislation which would permit it?

Secretary BENSON. We think it ought to be liberalized. We think it probably will be. We certainly have been offering a lot of our surpluses to relief agencies.

Senator DOUGLAS. The unemployed, those who have been laid off, how about them—what about swapping additional quantities of the stored commodities to the hungry areas of the world for additional quantities of strategic materials, such as uranium, titanium, manganese, rubber, tin, et cetera, with the idea that we give them additional quantities of food if they would furnish additional quantities of these strategic war materials which we then would store?

Secretary BENSON. Yes.

Senator DOUGLAS. Do you think that is a good idea?

Secretary BENSON. I am very favorable to that. Some of it has actually been done. We hope that more of it can be done.

Senator DOUGLAS. You will get great support, I am sure, from the Democratic side.

Secretary BENSON. I would hope that we would get it from the entire Congress.

Senator WATKINS. I do not think that there is the slightest doubt about that, from the Republican side. I am glad to hear of the support from the Democratic side.

Representative BOLLING. On page 95 of the Economic Report there are a good many statements with regard to concern for improving rural education, health, and housing. I remember that earlier in your appearance here there was some discussion of the Farmers' Home Administration being very useful, that is, this program being very useful to the marginal farmer.

I would like to know how much of the funds for vocational agricultural education in the schools is being increased or decreased in the President's budget?

Secretary BENSON. I cannot answer that, because vocational agricultural education does not come under the Department of Agriculture.

Representative BOLLING. As a matter of fact, I believe they are being reduced. Is it not true that this budget dropped all funds for the rural housing program?

Secretary BENSON. I am not sure as to that.

Representative BOLLING. I think it does.

Secretary BENSON. It does not. You mentioned the vocational agricultural program. Of course, we have the 4-H Club program in agriculture and we are asking for increases in that in our extension work and our research work.

Senator SPARKMAN. Will you yield?

Representative BOLLING. Certainly.

Senator SPARKMAN. Mr. Secretary, since Congressman Bolling has mentioned the farm housing program, that does come within your Department. And the President in his message stated that he recommended that it be allowed to expire on June 30 of this year, that is, the expiration date of the present law.

I most earnestly ask you to restudy that program because it is a small program, but I know that it is one of great importance and has done a great deal of good. I believe that the administration ought to recommend its continuance.

If it is not in the housing bill that comes here, I am going to do my best to put it in, in the form of an amendment.

Secretary BENSON. I think there has been no recommendation to curtail the work being done through the Farmers' Home Administration.

Senator SPARKMAN. Yes, Mr. Secretary, let me say this, there are two different parts now. The Farmers' Home Administration has a program that does enable a tenant to purchase a home.

Secretary BENSON. Right.

Senator SPARKMAN. And build homes on it, but there is another program that provides a part of your rural housing program that farmers can participate in, and has run very well for about 4 years, this is its fourth year—and the President specifically recommended that it be allowed to expire.

I hope that you will give some personal attention to it and restudy it, because I believe that if it is very carefully considered by you in your Department you will recommend its continuance.

Secretary BENSON. You understand, of course, it has not been administered in Agriculture.

Senator SPARKMAN. It is in the Farmers' Home Administration?

Secretary BENSON. Well, the part of the program that is in the Farmers Home Administration, I think, is intended to continue as it is. It is the part that must be outside of the Farmers' Home Administration.

Senator SPARKMAN. There are two parts, Mr. Secretary.

Representative BOLLING. My impression was, Mr. Secretary, if the Senator has finished, not only was the program with which Senator Sparkman is particularly concerning himself, but also the loan authorization for the Farmers' Home Administration was being reduced in the budget—a recommended reduction.

Secretary BENSON. There is a recommended reduction as the result of savings in administration, but I think not in loan funds.

SUPPLEMENTARY STATEMENT FURNISHED BY THE DEPARTMENT OF AGRICULTURE

In order to correct portions of the foregoing testimony, Secretary Benson subsequently submitted a tabulation showing budget estimates for the fiscal year 1955 compared with 1954 for Farmers' Home Administration programs, as follows:

	1954	1955 budget
Loan authorizations:		
Farm ownership loans and title I of Bankhead-Jones Farm Tenant Act	$19,000,000	$19,000,000
Farm housing loans under title V of the Housing Act of 1949 (legislative authorization expires June 30, 1954)	16,500,000	
Production and subsistence loans:		
Included in Department of Agriculture Appropriation Act, 1954	120,000,000	120,000,000
Included in Public Law 175, 83d Cong., in connection with the drought	20,000,000	
Water-facilities loans	6,500,000	6,500,000
Salaries and expenses	27,600,000	22,250,000

Representative BOLLING. If my understanding of these 3 or 4 things is correct REA funds are to be reduced. I take it that this is another example of allegedly more assistance to certain areas for less money—this is comparable to the more defense for fewer dollars?

Secretary BENSON. Most of the reduction, I am sure, that we have recommended in the case of the Farmers' Home, has been as a result of savings which we have been able to make in administration in the field offices, et cetera.

Certainly, we have just been through this emergency loan program, the drought program in many States, and we have found that the Farmers' Home Administration had been able to take up that extra load without being handicapped in their operations.

Representative BOLLING. In other words, you are saying in effect that the cuts that are proposed in these various programs are largely administrative fund cuts and that you will be able to do about the same level of job that has been done in the past on these programs?

Secretary BENSON. That is our intention and we hope it will be better.

Representative BOLLING. What I am curious about then, in view of the words in the President's Economic Report, which indicates that you are going to do a good deal more is: "How?" From where comes this improving situation in rural education, health and housing?

Secretary BENSON. Of course, I think it will, following the study. So far as the low-income farmers are concerned it will, following the study which the President has directed the National Agricultural Commission to make.

Representative BOLLING. In other words, can it be said with fairness that there is no program to implement the words of the Economic Report with regard to this field at the moment?

Secretary BENSON. Certainly, there is for a large measure of it, but there will be a need for some further basic study, of course.

Representative BOLLING. I take it that we have reached 12 o'clock, and so out of respect to the chairman and the Secretary, I will stop at this point.

Secretary BENSON. If it is the wish of the committee that we continue for a little period I will send a message out and have the other group stand by. I do have a speaking engagement at lunch.

Chairman WOLCOTT. I call attention to the fact that it is now 12 o'clock, but if the Secretary can be with us a few more minutes, perhaps we may close up.

Representative BOLLING. I could pose my questions on subsidies in a very few minutes.

Senator SPARKMAN. Mr. Chairman, if I may, Congressman Deane of North Carolina has just shown me an insert that he placed in the Congressional Record of February 2, with reference to the discontinuance of this program. It gives a brief breakdown of this whole program since it has been in existence State by State and what has been done.

Mr. Chairman, I would like to ask permission at this point to insert in our record this table, together with the statement that Congressman Deane makes. It is very short.

Chairman WOLCOTT. Without objection, it may be inserted.

(The material referred to follows:)

FARM HOUSING PROGRAM

(Extension of remarks of Hon. Charles B. Deane, of North Carolina, in the House of Representatives, Tuesday, February 2, 1954)

Mr. DEANE. Mr. Speaker, under leave to extend my remarks, I include a table prepared by Administrator R. B. McLeaish, of the Farmers' Home Administration, which reveals the number of loans under the farm-housing program from the inception of the program through December 31, 1953. I think the members will be interested to study the figures for their respective States. This has been a sound and deserving program. It is with much concern that I learn that no funds are provided in the new budget for a continuation of this program during the new fiscal year. I call attention to the fact that as of December 31, 1953, there were on file 5,097 applications of which 2,042 were for veterans. Likely, there will be some funds available between January 1, 1954, and the end of the present fiscal year to process some of these loans but what concerns me is the need to continue this program. I am in hopes that the Subcommittee on Agriculture Appropriations will take note of this program and see that this program does not die for the lack of interest:

U. S. Department of Agriculture, Farmers' Home Administration—Farm housing program data, from inception of program through Dec. 31, 1953

State	Number loans made		Amount loaned		Average amount loaned		Number of borrowers in arrears on Jan. 31, 1953	Applications on hand Dec. 31, 1953			
								Veteran and nonveteran		Veteran only	
	Veteran and non-veteran	Veteran only	Veteran and nonveteran	Veteran only	Veteran and non-veteran	Veteran only		Number	Estimated amount	Number	Estimated amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
United States total	18,401	7,675	$93,992.181	$39,819,108	$5.108	$5,188	761	5,097	$25,916.845	2,042	$10.701,349
Alabama	1,022	502	5,509,475	2,802,396	5,391	5,582	8	560	3,018,960	228	1,272,696
Arizona	100	33	722,462	251.015	7,225	7,607	5	13	93,925	2	15,214
Arkansas	971	438	3,209.342	1,419,134	3,305	3,240	14	426	1,407,930	156	505,440
California	449	198	2,734,762	1,173,054	6,091	5,925	20	100	609,100	40	237,000
Colorado	212	101	1,232.162	602,578	5,812	5,966	14	45	261,540	21	125,286
Connecticut	34	15	142,082	64,417	4,179	4,294	1	4	16,716	2	8,588
Delaware	5	1	26,290	5,100	5,258	5,100	0	0	0	0	0
Florida	357	203	2,100,878	1,196.646	5,885	5,895	7	104	612,040	58	341,910
Georgia	1,164	546	5,716,975	2,752,180	4,911	5,041	27	482	2,367,102	166	836,806
Idaho	338	121	2,095,506	750,456	6.200	6,202	37	71	440,200	24	148,848
Illinois	336	122	1,328,605	433,169	3,954	3,551	1	60	237,240	23	81,673
Indiana	302	113	1,539,997	613,875	5,099	5,433	1	77	392,623	45	244,485
Iowa	355	95	1,667,289	488,405	4,697	5,141	1	60	281,820	15	77,115
Kansas	267	103	1,419,791	531,248	5,318	5,158	27	57	303,126	20	103,160
Kentucky	424	192	2,227,883	1,055,420	5,254	5,497	8	56	294,224	31	170,407
Louisiana	640	265	3,322,580	1,403,117	5,192	5,295	13	238	1,235,696	100	529,500
Maine	263	109	1,049,715	399,057	3,991	3,661	7	37	147,667	16	58,576
Maryland	137	51	736,046	287,165	5,373	5,631	7	42	225,666	15	84,465
Massachusetts	20	6	97,043	31,300	4,852	5,217	1	3	15,651	3	15,651
Michigan	414	171	2,002,630	866,094	4,837	5,065	8	69	333,753	29	146,885
Minnesota	304	96	1.262,580	361,770	4,153	3,768	11	65	269,945	19	71,592
Mississippi	1,145	564	4,860,853	2,406,339	4.245	4,267	30	383	1.625,835	155	661,385
Missouri	883	381	3,218,484	1,398,627	3,645	3,671	22	189	688,905	72	264,312
Montana	189	77	1,140,615	462,725	6,035	6,009	24	42	253,470	19	114,171
Nebraska	362	142	1,653,595	705,858	4,568	4,971	28	21	95,928	14	69,594
Nevada	25	9	180,807	62,750	7,232	6,972	3	3	21,696	0	0
New Hampshire	15	10	57,420	42,045	3,828	4,204	0	10	38,280	6	25,224
New Jersey	145	43	740,953	240,943	5,110	5,603	2	17	86,870	5	28,015
New Mexico	238	100	1,357,541	570,475	5,704	5,705	20	39	222,456	23	131,215
New York	165	53	908,547	320,290	5,506	6,043	13	34	187,204	14	84,602
North Carolina	739	309	4,229,947	1,780,397	5,724	5,762	7	152	870,048	101	581,962
North Dakota	196	67	1,239,038	426,387	6,322	6,364	22	162	1,024,164	41	260,924
Ohio	190	88	873,480	369,458	4,597	4,198	7	43	197,671	17	71,366

Oklahoma	960	367	4,847,383	1,833,676	5,049	4,996	77	216	1,090,584	74	369,704
Oregon	204	76	1,332,914	453,866	6,534	5,972	9	47	307,098	14	83,608
Pennsylvania	353	182	1,495,857	782,419	4,238	4,299	12	61	258,518	25	107,475
Rhode Island	2	1	5,570	3,140	2,785	3,140	0	1	3,140	1	3,140
South Carolina	613	319	3,597,104	4,064,680	5,868	6,472	8	206	1,208,808	86	556,592
South Dakota	216	66	1,139,024	367,273	5,273	5,565	28	64	337,472	27	150,255
Tennessee	585	259	3,040,455	1,394,213	5,197	5,383	12	117	608,049	62	333,746
Texas	1,158	415	6,673,353	2,425,767	5,763	5,845	121	215	1,239,045	81	473,445
Utah	264	80	1,654,674	537,207	6,268	6,715	14	51	319,668	26	174,590
Vermont	18	4	71,375	15,365	3,965	3,841	1	7	27,755	1	3,841
Virginia	326	167	2,122,887	1,124,077	6,512	6,731	22	92	599,104	45	302,895
Washington	207	98	1,412,972	681,734	6,826	6,956	8	56	382,256	33	229,548
West Virginia	246	114	1,575,047	790,436	6,403	6,934	3	114	729,942	53	367,502
Wisconsin	289	87	1,328,991	418,855	4,599	4,814	8	51	234,549	9	43,326
Wyoming	141	54	817,672	332,790	5,799	6,163	16	17	98,583	9	55,467
Alaska	1	1	1,000	1,000	1,000	1,000	0	0	0	0	0
Hawaii	101	22	825,950	145,135	8,178	6,597	3	13	106,314	3	19,791
Puerto-Rico	296	38	1,369,450	170,585	4,627	4,489	17	98	453,446	13	58,357
Virgin Islands	15	1	75,130	3,000	5,009	3,000	6	7	35,063	0	0

Representative BOLLING. I do not want to monopolize the time, but I do have these questions on subsidies. I would just as soon not write the letter.

I gather from what I have read in the press, Mr. Secretary, that you have been very much concerned as to how long the nonfarm population would support the programs for agriculture.

It happens that I share that concern to a very great degree, because I represent a district which does not have a single farm in it. Mine is a completely city district. As a result I have given considerable attention to this particular problem, because I have had to answer a great many very difficult questions from my own constituents.

I note that while there is every reason for concern about any subsidy, that the figures which are given in the Federal budget indicate that the expenditures for agriculture are very small compared to those for business. And very small indeed when compared to those for veterans.

I think that I would like to get your comment on why it would be that my city consumers would be so furious if they found that a segment of the population which they recognize as important to them is getting a certain subsidy, but that that subsidy is a great deal less than that segment of the population of which they themselves are a part. The total subsidies to business are very substantially greater than that to the farmer. I think that the figures are very interesting.

I do not have anything but a clip from the budget. I do not have the page references in the full budget, but the figures that come from the budget indicate that for agriculture in 1952 the actual figure was $463 million, in 1953 it was $547 million and in 1955 the estimate is $549 million. That last figure does not appear in the budget.

For business, 1,041 million, for 1952. Actual. And 1,018 million estimated for 1953. And an estimate of $609 million for 1955.

What attention have you given in your consideration of this problem—and I am sure it concerns you greatly—as to various other provisions of law which have an impact on the business community, but which are not and, obviously, not included in the figures which the budget includes, and which are otherwise estimated for 1955—figures such as the depletion allowance provisions which, as I get it, amounts to about $750 million a year and certain provision in the tax law with regard to income splitting which affects all people who are in the fortunate position to be able to get it—and the billions of dollars or the millions of dollars that may be evading taxes in dividends unreported, and the taxes on estates and gifts and so on. It seems to me that here are a great many additional subsidies to those listed which make the subsidies to agriculture look pitifully and ridiculously small when regarded in the light of the whole picture of all of the subsidies.

I say that as a person who represents a city district. I cannot see where a really effective argument can be made that the farmer is being oversubsidized under the present program or any other reasonable program that might be thought of. I wondered if you agreed.

Secretary BENSON. Of course, I have never indicated that I thought that the city consumer was going to become furious or anything of the sort.

I have found generally that the consumers are very friendly to the farmer and his needs and, generally speaking, have looked with favor on the reasonable program for his protection, but I do know that there is concern when we are going in the direction on a program which eventually, unless changed, is going to crash of its own weight. It cannot be made to work as it is going at the present time.

We did have a few years ago a potato fiasco in which the public sentiment was aroused in opposition to a program which resulted in the destruction of food. I can recall that.

I know, too, of the mail we are getting at the present time from consumers complaining of the fact that we are permitting these foods to remain in storage at a cost of a half million dollars a day. And yet they feel that eventually if we continue in this direction it will mean destruction of food again.

That concerns me, because I do not want to see this program fail and have it wiped off the books as the potato program was wiped off the books. We could not help the potato growers at all this year.

Representative BOLLING. You will find that in the debate on the Commodity Credit Corporation question that was recently before the House I said virtually the same thing, but the conclusion I came to may be slightly different than yours. I said that the city consumer, in my judgment, was prepared to pay his fair share of taxes to see to it that we had a healthy farm economy, that he was even prepared to pay the impact that it made on him, that is, the impact of a reasonable support-price program on him in higher food prices, but that he was completely unwilling to accept the potential waste. I referred to the potato fiasco and mentioned dairy products as of today. It seems to me that we are leaving out in our present consideration two things. I would like to know what specifically is being done in these two areas; the farmer's share, as I understand it, of the consumer's food dollar has gone down very substantially. I think it is from 54 to 45 cents of every dollar. If those figures are incorrect I will be happy to be so informed. I would like to know why it is that in this particular situation the farmer's share of the consumer's dollar is decreasing; in other words, what is happening in the middle between the farmer and the consumer. I am not satisfied with anything that I have seen or heard on that subject.

It seems to me that the consumer is being exploited at the same time as the farmer is being exploited, by somebody in the middle.

And secondly, what concrete steps are being taken in terms of now, not next year or some other year, to find a market for these surpluses?

I think the point that Senator Douglas made is one that is well worth exploring. It is very clear that even with a relatively slight increase in unemployment, there are many people suffering hardship today. I do not believe that those people who are suffering that hardship, or the people who live with them in the cities will long tolerate this kind of a situation, nor do I feel that if that does not provide an adequate market that we have fully explored the possibilities of developing foreign markets.

I would be very interested to know what is being done specifically, as of now, not for next year or some year after that, to do something about finding additional markets, and I mean aggressively.

Secretary BENSON. I think I mentioned earlier these trade missions which we are sending abroad. We have been in touch with a number of the firms abroad that are spending American dollars at the present time to establish airfields and things of that sort, arranging that the wage earners there take food products in part payment.

We have had many conferences aimed in the direction of the thing that you mention.

I would like to mention another point and that is the fact that I look upon these support programs as not only a help to agriculture, but a protection to our food supply and our fiber supply. That is why I am anxious that the program that we use to try and provide that protection and that help be a program that we can live with, that we can all support—a program that is workable from the long-time standpoint.

The present program is falling down of its own weight. All we are asking is that there be some modification of it in line with the recommendations of the Congress' bipartisan action taken back in 1948–49.

Representative BOLLING. When I first heard of the new agricultural program submitted by the administration, I thought perhaps it was something that I would be in favor of, but I have seen studies made by independent and objective people which indicate to me that there is very, very little likelihood that a flexible price-support program will have much effect on our carryovers for this year or even later years. It will not have an effect this year, because it will not go into effect, but it will not have much effect even years later.

So I find it less appealing, because it does not solve what seems to me to be the basic problem and that is the problem of markets for our goods, in this case agricultural goods.

Secretary BENSON. That is only a part of the problem. The other part of the problem is to get a better balance in our agriculture, and not to continue to stimulate the production, the expanded production of just a few commodities, but to permit a better balance in the farm operation.

Chairman WOLCOTT. Will it be agreeable if you have some other matters to submit them in writing to the Secretary? I find that it is necessary to call attention to the fact that the Secretary must now leave.

Secretary BENSON. If there are questions that any member of the committee would like to submit in writing, we will be glad to answer them as best we can and make them a part of the record.

Chairman WOLCOTT. I am sure that will be acceptable to the committee and to its staff.

Mr. Secretary, we are very happy that you have been here, together with our former colleague, Mr. Rizley, together with Mr. Wells. We shall feel free to call upon you for any information that the staff or the members care to have.

We will convene at 2:30 this afternoon. We will hear from Harold Stassen, the Director of the Foreign Operations Administration here in this room.

Without objection, the committee will stand in recess until 2:30 o'clock this afternoon.

(Whereupon, at 12:15 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

Chairman WOLCOTT. The committee will come to order.

We have with us this afternoon Harold Stassen, Director of the Foreign Operations Administration.

Governor Stassen, I notice that you have a prepared statement. If it is agreeable with the committee, Mr. Stassen may proceed with his prepared statement, and then questions will be asked following.

Mr. STASSEN. Thank you, Mr. Chairman.

STATEMENT OF HON. HAROLD E. STASSEN, DIRECTOR OF THE FOREIGN OPERATIONS ADMINISTRATION, ACCOMPANIED BY GLEN A. LLOYD, ROBERT E. MATTESON, AND D. A. FITZGERALD

Mr. Stassen. Mr. Chairman, gentlemen of the committee, I am pleased to respond to your invitation to meet with you this afternoon in consideration of the Economic Report of President, which has been transmitted to the Congress.

May I state in opening my comments that, as I see it, in terms of the United States economic role in the free world, the President's Economic Report makes an extremely significant statement on page 109, where the President states:

> The United States is determined to continue its efforts to attain a common objective—a steadily expanding world economy. A policy to promote economic growth and stability cannot be limited to our domestic affairs, but must, of necessity, extend to our relations with other nations. One of the basic lessons of history is the interdependence between prosperity at home and prosperity abroad; between depression at home and depression abroad.

With your permission I would like to turn to a few of the charts which we have developed in our studies of the Foreign Operations Administration.

Chairman Wolcott. I would like to have you do so.

Mr. Stassen. This is to emphasize this basic point.

Let me say first of all, that the year 1953, as you are very familiar, was the year of the greatest economic activity in the history of the United States within the United States, the highest overall earnings and wages, the highest gross national product, and all of the significant factors.

Now, the year 1953 was also the year of the most satisfactory economic picture in the rest of the free nations of the world and, emphasizing the basic premise of the paragraph of the President's Report that I read, these two facts are not a coincidence, but rather have a cause and effect relationship. Economic health and success overseas and economic health and success within the United States have a very close and inseparable relationship.

In this first chart that I would like to call to the committee's attention, the staff has endeavored to put together on one chart the United States economic relationship to the rest of the world, reflecting the total interrelated situation in all types of financial transactions and exports and imports.

(The chart referred to faces page 190.)

You see flowing out from the United States the items that needed to be counterbalanced during 1953 by items that came back, and that counterbalance was hit at a range of about $25,900,000,000 overall in transactions between the United States and the whole rest of the world.

Of that total, you will notice that in the outgoing, the exports totaled $16,400,000,000 of which a little over $4 billion on the bottom are shown in the military supplies. 1953 was the year in which we furnished more arms to friendly nations for their buildup of the total defense posture versus the threat in the world than in any other peacetime year, in which we expedited the deliveries of particularly the items that had been lacking.

Then on the substantive, more normal exports, you will see that wheat, tobacco, and meat and those agricultural commodities were one of the large items, $2,800,000,000; cottton, textiles, paper, wood products; metals and minerals; machinery and vehicles; then chemicals, miscellaneous and adjustments.

The chart, of course, is drawn so that the size of the bar reflects approximately the relative amount in dollars of the exports.

Now, the financial transactions involved a total of $7.5 billion, so that the exports and the financial transactions together give this total economic relationship.

You have due bills for United States capital earnings abroad. In other words, United States private capital invested overseas at this very substantial earning that must be paid during 1953, of $1,950,000,000. Then foreign countries and individuals frequently build up their own reserves behind their currencies or in other respects in the United States, as their location of their reserve assets. Those amount to $1,200,000,000, and within the United States the extent of dollar services to foreign citizens and governments—that is everything from overseas tourists coming here to all the embassy expenses and everything related to foreign governments, of $3 billion.

The governments bought from us during the year gold to the extent of $1,160,000,000. There is a little adjustment figure and that is the total.

Now, the rest of the world counterbalanced that, or met it, in the way indicated on the right-hand side. The immediate thing, of course, that is evident is that the physical imports came to $11,800,000,000, with the largest item in coffee, sugar, rubber, fish, and agricultural products, of $4.2 billion; the wool, hemp, textiles and fibers; the metals and minerals—those are mostly raw materials, and a very large item; machinery and vehicles; the military purchases abroad; then the chemicals, miscellaneous and adjustments.

Then you come to the balance of the picture. The top item is due bills, for foreign capital earnings in the United States, which is a small item, $450,000,000, small relatively in the total picture, and then you have the ownership of increased foreign assets by United States private capital, $450,000,000; TYR's—that is, "Thank you receipts" for private remittances—that is shorthand for "Thank you receipts" thanking people for sending overseas remittances, which are part of the counterbalances; the dollar services to United States citizens and governments—that is a heavy expense—and overseas troop expenses and things of that kind, over $4 billion.

Then you come to that remaining item, which was filled up during the year, as you are familiar, with the United States program of overseas assistance, or foreign operations, which the red item showing the military supplies and services, which we granted to other countries, $4.3 billion, and then all other United States grants and loans made of $2 billion.

That is the total economic picture.

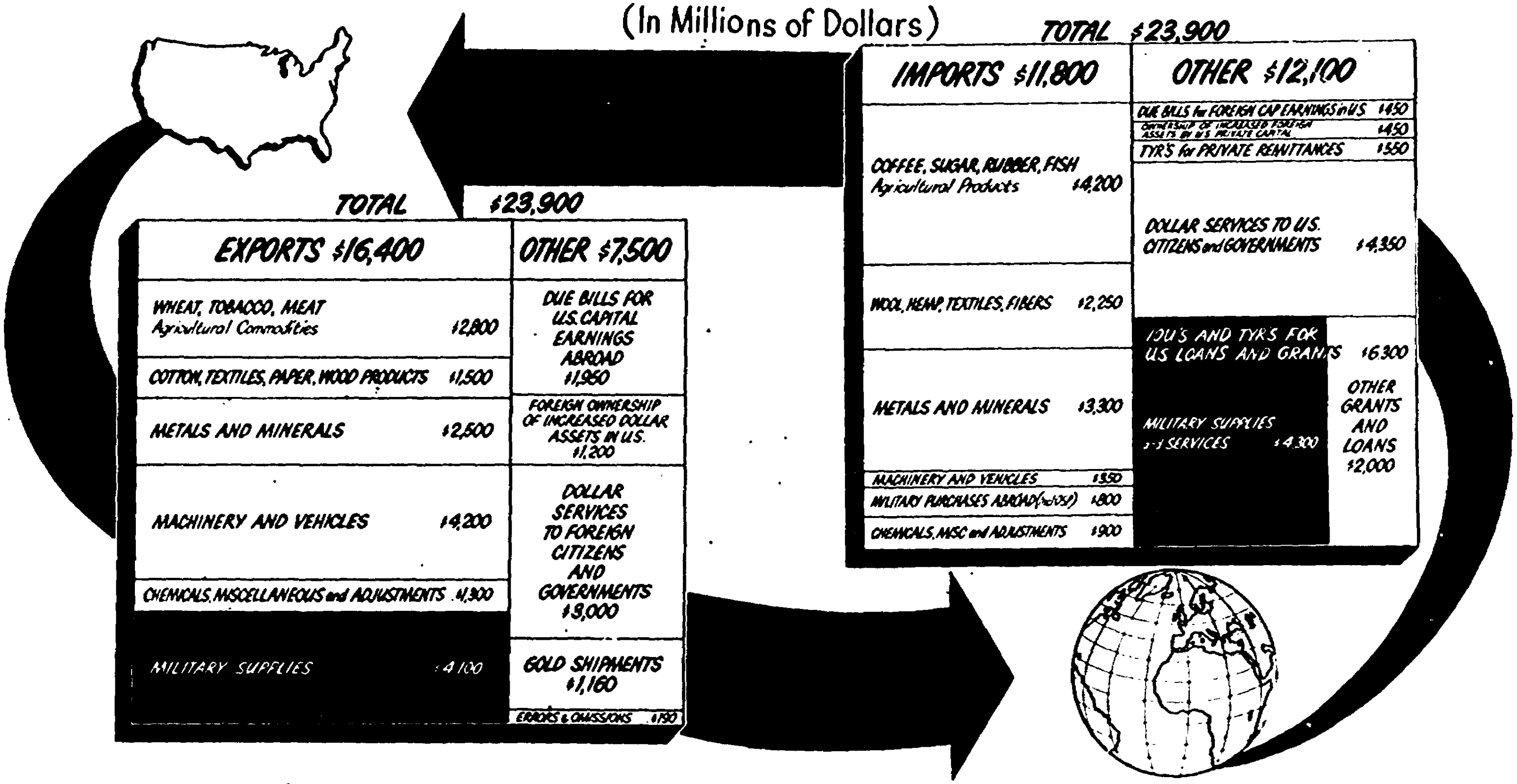
Now, we have a few charts, Mr. Chairman, on the relationship of flow of goods to the economic situation within the country. The first one is just the familiar general chart of the exports versus imports.

(The chart referred to is herewith inserted.)

The next one is the importance of exports to the United States agriculture, with which you are very familiar, but this takes up the specific crops, which we endeavor to follow in foreign operations in cooperation with Agriculture.

(The chart referred to follows:)

1953*
THE ECONOMIC RELATIONSHIP
of the United States to the World
(In Millions of Dollars)



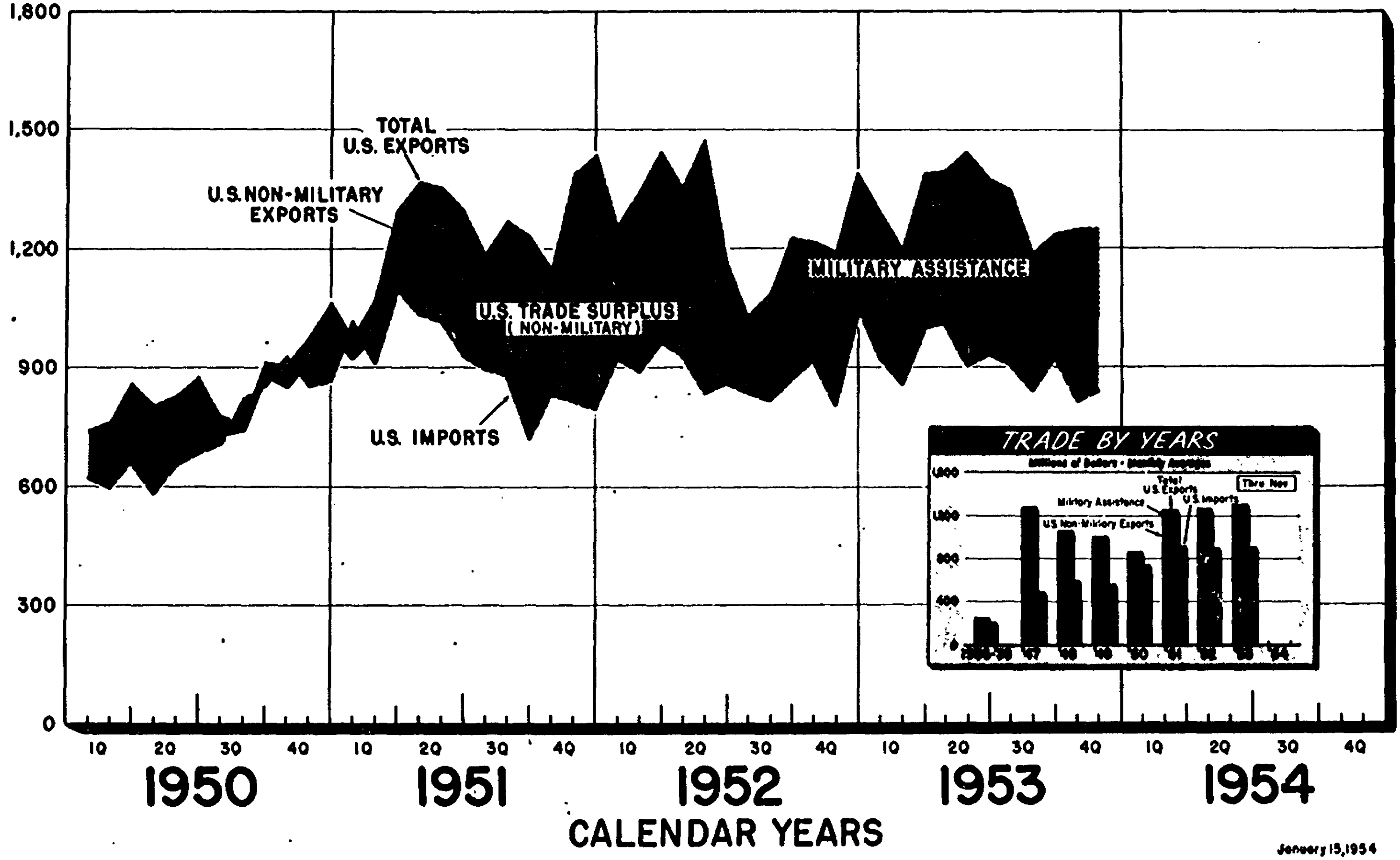
* Preliminary estimates

43498 O-54 (Face p. 190) No. 1

U.S. TOTAL FOREIGN TRADE

EXPORTS (INCL. MILITARY) AND IMPORTS, PREWAR AND 1947 TO DATE

MILLIONS OF DOLLARS - MONTHLY AVERAGES

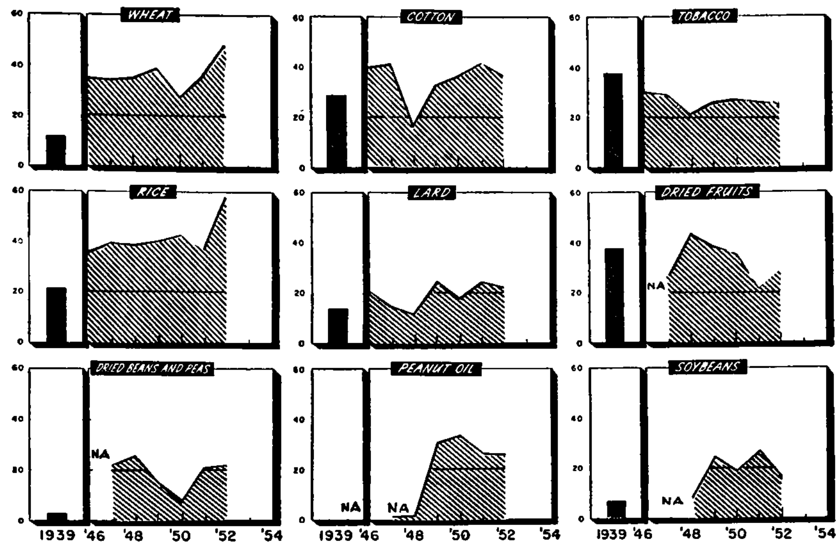


January 15, 1954

43498 O-54 (Face p. 190) No. 2

IMPORTANCE OF EXPORTS TO U.S. AGRICULTURE

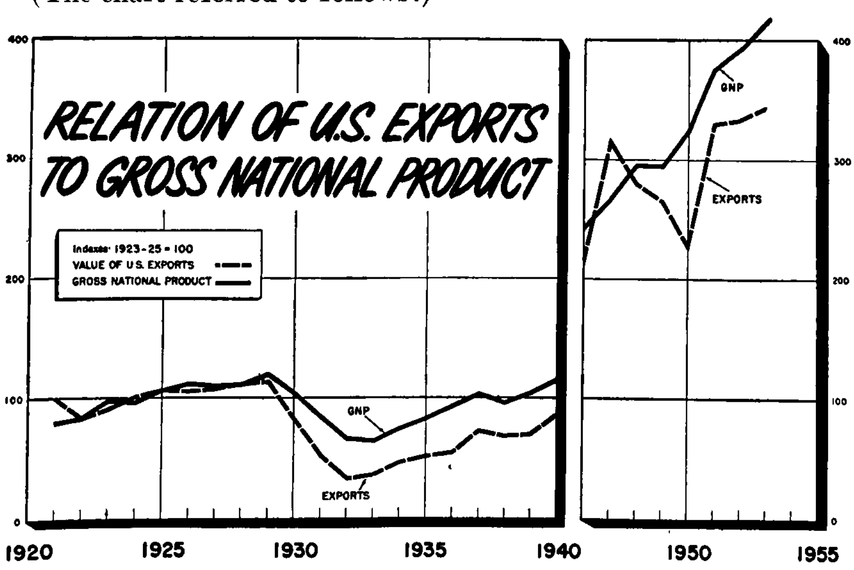
EXPORTS OF SELECTED COMMODITIES AS PERCENT OF U. S. PRODUCTION



NA—Not Available

Then we show the relative position through the years of the level of flow of goods with what we know to be the level of economic success or prosperity or depression in the United States, and you see the situation in the depression years of the thirties, and the very low level of exports from the United States. You see in these postwar years that the very successful years, as shown in the gross national products line, are also reflected in a high volume of exports and a high volume of trade.

(The chart referred to follows:)



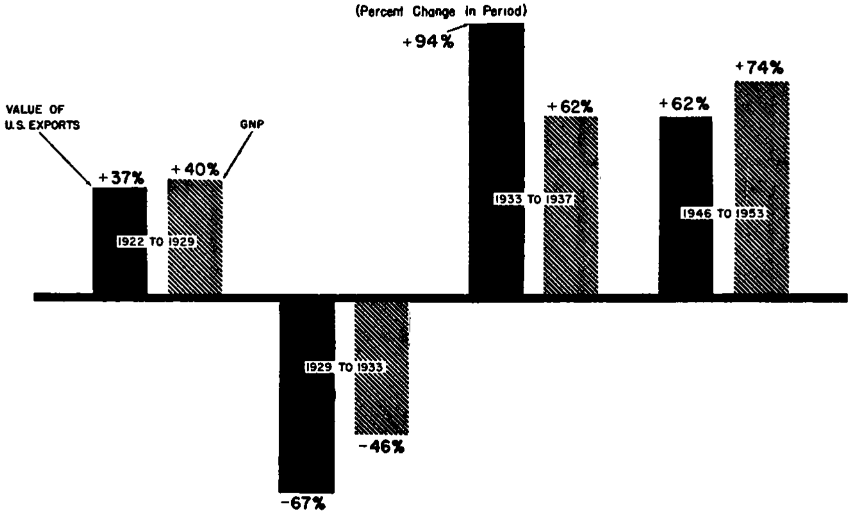
Then we have other charts which show the United States exports and the gross national product, again indicating that situation down below here, from 1929 to 1933, by the second set of bars, where the gross national product and the value of the exports both dropped to a very low level.

(The chart referred to follows:)

U.S. EXPORTS AND GROSS NATIONAL PRODUCT

CHANGES FOR SELECTED PERIODS

(Percent Change in Period)



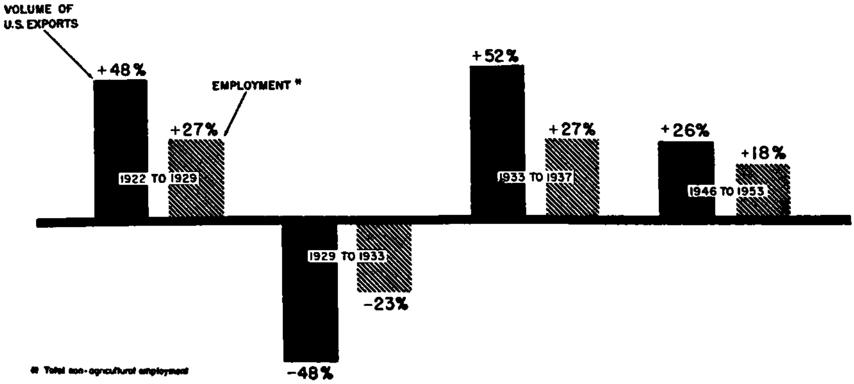
The next chart shows a similar relationship to employment. The years of high employment are years of high exports and imports in the United States.

(The chart referred to follows:)

U.S. EXPORTS AND EMPLOYMENT

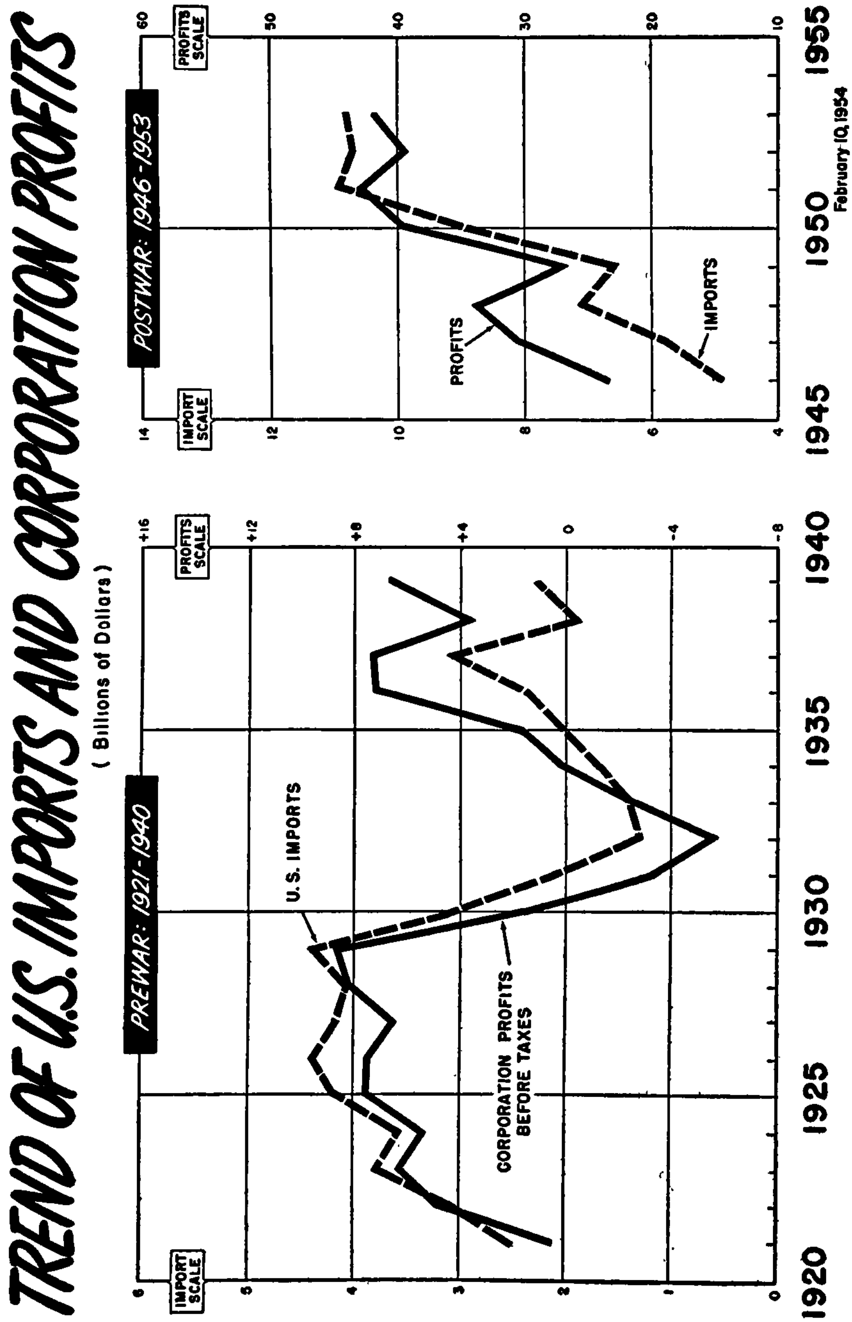
CHANGES FOR SELECTED PERIODS

(Percent Change in Period)



The United States imports, reflecting the volume of United States trade, also move the same way corporation profits do.

(The chart referred to follows:)



When your imports and exports are low, you have years of low business and low corporation profits, and it also shows up similarly on unemployment.

Here is a very unusual chart which shows a rather striking fact. (The chart referred to will be found on page 195.)

So often we are inclined to think in terms that imports mean unemployment. A study of a period of 35 years indicates that in effect when you have a large volume of imports you have a low unemployment and when you have a low volume of imports and exports, and a low volume of trade, you have high employment.

Go to the period of 1929 and 1930. On the broken line, you see the imports falling down. By the solid line you see unemployment coming up. You could trace that right through 35 years.

In other words, statistical studies of what happened over the last 35 years emphasize that basic lesson of history that the President refers to, the interdependence between prosperity at home and prosperity abroad, between depression at home and depression abroad.

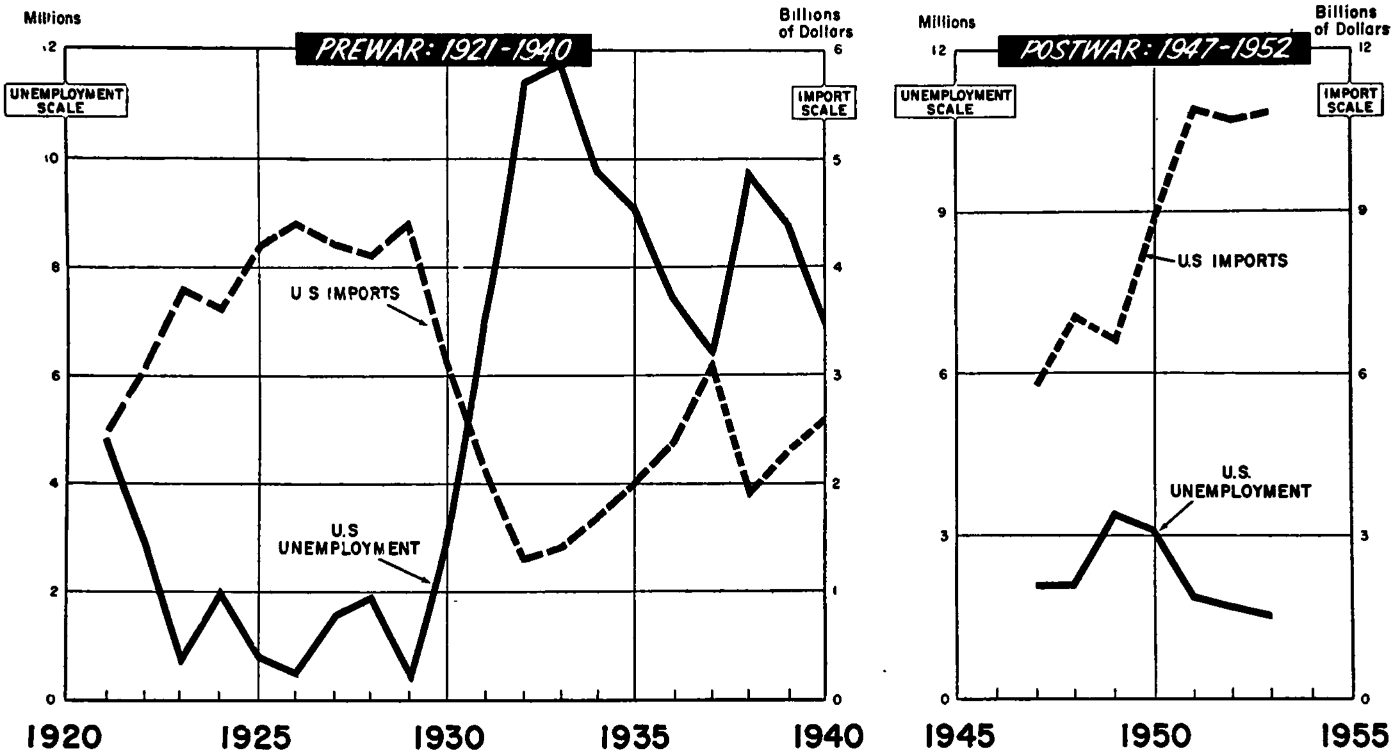
As the President's report indicates, the United States aid to the free world has effectively helped these countries bridge the difficulties of postwar economic readjustment and has helped these countries accomplish in 1953 a broad economic advance. Today the free world is no longer in a state of economic crisis and we are in the position of being able to examine our economic problems and policies with greater deliberation than has usually been true in the past. We can now devote major attention—in cooperation with our partners—to forging strong and stable economic relationships among the free-world countries which will endure beyond momentary crises. These relationships, Mr. Chairman, will provide the basis for sound economic expansion and rising standards of living for the peoples of the free world.

1. CONSUMPTION AND LIVING STANDARDS

It is my belief that at this time the most important single element basic to the achievement of sound free world interrelationships is an improvement in the standards of living by an increase in the consumption by the people of the free world nations. War damage has long since been made good, and a remarkable expansion in physical plant and equipment has been achieved. A healthy economy requires, of course, continued expenditures for maintenance, modernization, and continued growth. But for the immediate future, the free world's, particularly Europe's, economic needs may well be met by a more efficient utilization of existing capacity. This can best be accomplished by the gradual unleashing of competitive forces within each country, and by the widening of markets fostered by lower trade barriers among countries and the steady growth in consumption.

The governments of Europe have at hand many techniques for encouraging consumption. Foremost among others, higher wages should be encouraged and consumption taxes should be reduced. We must recognize, of course, that too rapid an increase in consumption rates would tend to revive trade deficits and internal inflation. But both these risks would be greatly reduced if cost reduction is achieved through increased competition and lowering of trade barriers and expanded production.

TREND OF U.S. IMPORTS AND UNEMPLOYMENT



We know that considerable unrest exists behind the Iron Curtain and that, probably as much as anything, it is traceable to the knowledge, which the Soviets cannot entirely suppress, that Western Europeans are much better off than those behind the Curtain. This favorable comparison must be maintained and, if possible, improved.

2. PRODUCTION

Another most pressing economic need of the free world is for greater production. The principal benefits that these countries stand to reap from increased production are threefold: (*a*) It will improve the general economic strength of the free world for the long pull; (*b*) it will enable these countries to consolidate recent gains in their balance-of-payments position; and (*c*) it will permit a resumption of the advance in the standard of living, more or less stable in the last 2 or 3 years.

3. PRODUCTIVITY

Since, in most industrial countries where records are available, unemployment is close to a working minimum, increased production must come, not from increased employment, but from higher output per man-hour and more efficient utilization of existing plants and equipment. During the last few years, the Foreign Operations Administration and its predecessor agencies have sponsored a technical-assistance program that has resulted in remarkable advances in productivity in individual plants, or even whole industries in some countries.

But Europe in large measure still clings to its traditional restrictive practices, which were further intensified by the great depression and World War II and its aftermath. As long as this situation continues, and the more efficient producer is not free to expand his production, productivity improvement in an individual plant is likely to result merely in higher earnings for the producer and/or his workers, rather than in lower prices and increased productivity for the country as a whole.

There is a somewhat fuller realization, at least among European officials and businessmen, of the high price that a country pays for stifling the productive forces of competition.

4. UNITED STATES FOREIGN INVESTMENTS

A fourth principal element significantly affecting free world economic relationships is the flow of United States foreign investment. During the years 1948–52, the flow of United States private long-term investment funds into foreign countries averaged less than $1 billion per year. After correction for price changes this is considerably less than the average for the 1920's and far short of the expectations as of the end of the war. However, with our more pressing capital needs satisfied for the moment, we anticipate that there will be a much larger voluntary flow of private funds into long-term foreign investment and we are actively encouraging this movement.

This Government should take positive steps to reduce the risks attached to United States foreign investment. To this end, the fruitful suggestions of the President's Commission on Foreign Economic Policy will be given the most serious consideration.

The benefits to be derived from expanding volume of foreign investment over the next few years are manifold. It will provide an outlet for those types of machinery and equipment which until recently had been devoted to providing the tools for reequipping our Armed Forces and those of our allies. Secondly, it will provide the capital without which rapid advances in production and living standards in the underdeveloped areas of the world simply cannot be achieved. Finally, through multilateral trade among all the free nations, it will provide some insurance against a return of the general balance of payments problem.

5. TRADE AND PAYMENTS

The fifth principal element is trade and payments. As the President urges, our "vigorous efforts to reduce the remaining barriers" to international trade should be continued. This should not, however, be considered as an end in itself, but as the proven method for assuring increased production and consumption in the free world. That, of course, means the living standards of the people.

We must work for the gradual elimination of the existing restrictions against dollar imports, on the part of other countries.

This will not only benefit us by widening the markets for our export commodities; it will also expose foreign producers to the wholesome competition without which cost reduction will be slow and halting. Similarly—and of great importance—the final attainment of currency convertibility through the free world is almost a necessary condition to the free flow of private capital without which industrial expansion in underdeveloped countries must either be starved for funds, or dependent on government-to-government loans.

It must be recognized that the liberalization of trade will be a gradual process, and should be a gradual process. For Western Europe, in particular, two circumstances must be taken into account: (*a*) We must beware of rigid adherence to a liberalization schedule that would induce reluctance on the part of governments to pursue those policies that are needed to encourage early increases in consumption and production within their countries; (*b*) European countries vary widely in their economic strength.

Liberalization of trade cannot, of course, be a one-way proposition. Foreign countries will, naturally, be less reluctant to reduce dollar restrictions if, we, on our part, offer concessions of our own. As the possessors of the world's most sought-after currency, the dollar, we have not found it necessary to institute discriminatory practices against other currencies. But tariff barriers can be quite as effective a barrier to a high level of imports. And, as pointed out by the President, an atmosphere of constant uncertainty can undo much of the benefits to be derived from short-run concessions.

We should, therefore, give continuing study to the simplification of customs procedure and to the institution of a long-term tariff-reduction program which, whatever the magnitudes involved, will at least remove some of the uncertainties now attaching to trade with foreign countries.

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For the most part, what I have said has particular relevance to Europe and its associated countries. In the less industrial parts of the world, the problems are predominantly technical rather than economic. Here the crying need is for increases in productivity, and for the growth of public utilities and simple industries to absorb excess agricultural labor into useful economic activity. In these countries our contribution has been, and will continue to be, largely technical, supplemented by limited economic aid without which the beginnings of an industrial expansion would be impossible, or, at least, greatly retarded.

In conclusion, Mr. Chairman, may I emphasize the President's statement that "the principal contributions that the United States can make to the achievement of an efficient system of international trade and payments is to maintain a vigorous, healthy, and expanding economy." This should go far to encourage others to undertake some of the steps that are needed to assure an expanding world economy in which the United States will enjoy its full and fruitful participation. This is the best road toward economic success and peace for ourselves and for others.

Chairman WOLCOTT. Thank you, Governor.

One thing that has been of interest to this committee is the industrial and economic potential, especially of Western Europe. Having in mind, as you have said, that European countries vary widely in their economic strength, what can you say of the prospects not only for further recovery but of their present productivity, potential productivity, and what is was previous to the war?

By way of background, we were told a short time ago that some of the Western European countries were now actually producing somewhat more than 100 percent more of goods, generally speaking, than they were prewar.

Mr. STASSEN. That is correct, Mr. Chairman. In fact, we have a chart on European industrial production, which shows that during 1953 the industrial production in Western Europe did reach an all-time high. Starting out in January and February, it was about the same level of 1951, but then it began to move ahead, and steadily through the year it has been running 4, 5, 6, or 7 percent ahead of the previous years. The indications are that the average for 1953 will be on an index of about 115, compared with 100 for 1950, and that would compare in turn with 82 for 1938. So you can see there has been a definite increase in the industrial capacity and actual production of Western Europe.

(The chart referred to will be found on page 199.)

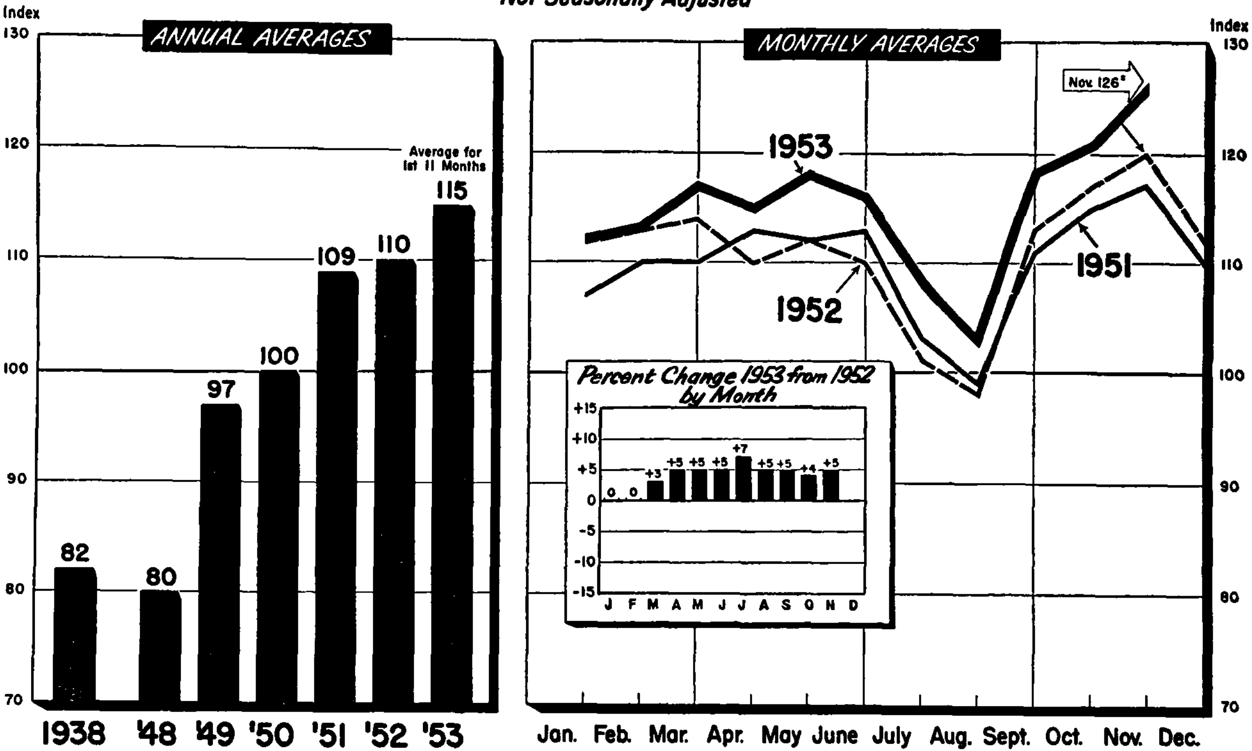
Chairman WOLCOTT. Then we may assume that from now on we cannot put too much reliance on the European Recovery Program standing alone. Less stress will be given upon the repair of war damage than has been, the thinking behind that inasmuch as they have recovered to the point where their productivity is 115 percent of normal, we have to rely upon their consumer needs more than we have in the past.

Mr. STASSEN. That is correct, relatively, Mr. Chairman. And what it means is that they are now in a position, having rebuilt the major war damage to their industrial plant, and having their inventories of manufactured goods and of available materials in relatively good

EUROPEAN INDUSTRIAL PRODUCTION

TOTAL FOR OEEC COUNTRIES: 1950=100

Not Seasonally Adjusted



*Preliminary

January 15, 1954

shape, that they can begin to bring up their standard of living so that the year 1954, I believe, will see and shall see one of the most significant advances in the standards of living of the workers of the other free nations of the world. Their wages and their standards of living had of necessity to be held back while they were rebuilding the war damage, and to counter the inflationary effects. Now their currencies are stronger; their supplies are better; their productive equipment is reestablished. So now is the time for an advance in their standards of living through an advance in their wages, their real wages, of the workers of the other free nations of the world. And the United States exports will reflect a rising standard of living in other parts of the world, if it takes place, and will reflect the shipments to the less developed countries, as there is new investment going into less developed countries in opening up new industries and the machinery that is involved, and the tremendous need for an advance in less developed countries, and a follow through of military equipment in other places where we are assisting in building the strength of the free nations.

But with the fact that the gold and dollar reserves of other countries have strengthened so much during 1953, I feel that there is a basis for looking toward a healthy export relationship, particularly if it is a part of an expanding and total trade in which our imports bear a reasonably good relationship to our exports.

Chairman WOLCOTT. I think the committee is particularly interested in the influence which foreign trade has had upon our economy generally. I understand that the program which you have outlined is to give more encouragement for American capital to invest safely abroad to take up whatever slack might be incident to any cutback of military programs or war repair programs.

Mr. STASSEN. That is correct.

Chairman WOLCOTT. And this capital which is invested abroad will be for permanent plant and permanent production in the fields of consumer goods for peace consumption instead of war.

Mr. STASSEN. That is right. As a matter of fact, the country of Turkey has passed a new law—it became law on January 18—which was very much along the lines of encouraging expanded private investment from external sources, that is, external so far as Turkey is concerned. And it opens up a new avenue for participation by United States and other private capital in the further development of the Turkish economy on what is, we feel, a sound basis.

Many other countries are showing an increased interest in the United States private investment which in turn leads to expanding production and consumption and improving standards of living in these other countries, and fits in with the growth of our own economy.

Representative BOLLING. Mr. Stassen, I assume that you are familiar with the report of the Randall Commission.

Mr. STASSEN. Yes, I am.

Representative BOLLING. Do you generally support the majority report?

Mr. STASSEN. I feel that the majority report should have and is having a very careful study along with the minority report in the executive branch, and that the President will make recommendations based upon it. I think many of its statements are fundamentally in line with the basic policy enunciated by the President starting with his state of the Union message a year ago and coming on down since that time.

Representative BOLLING. I take it, then, you are familiar with the various incentives to investment abroad of United States capital, with a tax rate of 14 points lower, offsets of foreign taxes, guaranties or insurance of private investment, and so on. Do you generally favor those?

Mr. STASSEN. Yes.

Representative BOLLING. Now, this is one of the things that has disturbed me a good deal about the Randall Commission report. As you know, there was a minority, which you might say was of a protectionist attitude, and there was a different approach by Mr. McDonald, president of the steelworkers. I am curious to get your view on why, if it is a good idea on the one hand to stimulate private investment abroad by indirectly or directly subsidizing that private investment and giving it special protection, and on the other hand Mr. McDonald's approach, which involves the lowering rather more rapidly of tariff barriers and in effect the subsidy of industry at home which was affected by that loss of protection—why is it that one approach seems entirely acceptable and the other does not, at least to the commission?

I would like to have your views on that. In some, the subsidy in one direction seems to be good, and in the other, not so good.

Mr. STASSEN. Of course, it was a matter of the types of controls that go with any specific program of governmental action, and I think that there is a great merit in studying all of the suggestions that are included in the minority as well as in the majority reports of the Randall Commission. That is the process that is now going on in the executive branch. Let me also say that in any subjects that are of as far reaching a consequence as these basic economic matters, it is very natural that there should be sincere, intelligent, and divergent views. Out of it, it is then the process of the executive branch and the Congress to come to a conclusion.

Representative BOLLING. I am particularly pleased with that statement, because there have been a number of statements made around the country recently that certain examinations of the economic situation and expressions of honest differences of opinion were virtually unpatriotic. I am delighted to hear you say that.

Chairman WOLCOTT. We thank you for your being here this afternoon, and we will feel at liberty to call upon you for any further information we desire.

Mr. STASSEN. Thank you. Either our staff or I will respond to any wish that you might have.

Chairman WOLCOTT. Tomorrow morning we will meet in this room for the panel discussion on the labor force and related statistics.

We will stand in recess now until tomorrow morning at ten o'clock.

(Whereupon, at 3:15 p. m., Thursday, February 4, the joint committee recessed to reconvene at 10:00 a. m., Friday, February 5, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 5, 1954

COMMITTEE OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10: 15 a. m., in room 1301, New House Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representatives Wolcott (chairman); Senator Douglas; Representatives Talle, Patman, and Bolling.

Also present: Grover W. Ensley, staff director; and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

Representative PATMAN. Mr. Chairman, may I make a request at this time?

On behalf of the Democratic members of the Joint Committee on the Economic Report, Senators Sparkman, Douglas, Fulbright, and Representative Hart, Bolling, and myself, it is requested that the chairman call before this group the Open Market Committee of the Federal Reserve System for questioning.

Chairman WOLCOTT. Well, the chairman will give consideration to the request.

Senator DOUGLAS. The chairman will, of course, with his customary fairness, hold a meeting of the committee to decide?

Chairman WOLCOTT. I do not see any reason why we should not hold any meetings. If we can get the committee together for that purpose, I don't see any reason why we should not hold a meeting. But today, you know, we are running a little short because of the committee hearings in the Senate on several matters before committees of which members of this committee are members.

Banking and Currency, for example, in the Senate this morning, is working on confirmation of members of the President's Advisory Council.

Representative PATMAN. May I supplement that, Mr. Chairman, with one brief statement: Mr. Sproul, in making a speech last Monday a week, I believe it was January 25, emphasized the fact that the Open Market Committee of the Federal Reserve System are on their own; that they are almost a separate branch of Government; that they are entitled to any credit for good that is done, and they should be charged with the responsibility of anything that is not good.

He made a very courageous statement of his viewpoint, and on the day before yesterday, when Mr. Martin was before this group, he stated emphatically that the Open Market Committee was responsible for anything that has happened; in other words, in and with reference to any change of hard money and high interest policy, they accepted all responsibility for it.

Since they consider themselves kind of off to themselves they have complete charge, according to their own statements, of the financial and monetary policy of our Government, we are just spinning our wheels talking to anybody else. They are the people we should talk to.

Chairman WOLCOTT. I want to say that there is perhaps no reason why the Open Market Committee should not come before this committee. But, as I said the other day, I do not want that subject to get to be a disproportionate problem before the committee in the study that we are making.

Now, we are up against time. We are expecting to devote the next 2 weeks to open hearings, principally panel discussions, on these problems that the President has raised in his Economic Report.

There will be then not more than a week in which the staff of this committee will have to get to do some very intensive work on the report if we are going to meet the deadline by March 1, and I hope we can meet that deadline.

Now, I am certain that there will be no opportunity in the mornings to get the Open Market Committee or any other witnesses, in addition to those which we have set out in the agenda, to appear before this committee. I thought that, perhaps, if it was convenient to the committee, if we could work it in on an afternoon, that we might try to do it. But we have go to take into consideration, of course, the fact that the House and the Senate will be in session in the afternoon. I, frankly, do not look forward with any pleasure to evening sessions and I am going to try to avoid as many evening sessions as I can before this committee at all times.

Now, if we can get a reasonable number of members of the committee here on some afternoon, as far as it is convenient, where it does not interfere with their work on the floors, then we can give consideration to it. But I think it would be a grave mistake to interrupt the continuity of this schedule that has been set up, with the hope of an entire morning, as we would have to give to the Open Market Committee, because I think you would put a disproportionate weight on the testimony that they would give.

I think we all know about what they would testify to anyway. But that is a matter that the committee can decide when we have a substantial number of the committee here, and I will be very glad to take it up then and see what they want to do.

This morning, the committee will consider the general subject of employment, unemployment, the labor force, and related matters.

This is a subject on which we all recognized that there is a great deal of public confusion and controversy, real controversy.

Differences of opinion have been expressed as to who should be counted as unemployed or under what circumstances a person should be considered in or out of the Nation's labor force.

Some people suggest that the trouble arises in analysis or lack of analysis and interpretation of the statistics. Some have been disturbed by the apparent contraditions or discrepancies among the statistics reported by the different Government agencies. Still others have argued that all of the inconsistencies in the figures could be ironed out if all the reports were combined in a single Government agency which could then properly explain the meaning of the data collected.

We are called upon to reach a conclusion on these and related matters, and it is very well that we get as much information as we can on the facts before we try to reach any conclusions.

The problem of employment, unemployment, and labor force is so complex in itself that we need to tap all available sources for as much information as we can possibly obtain.

Each of the agencies collecting these statistics is represented here this morning, and they will appear in the order in which they are listed on the agenda for a development of this interesting and very important problem.

As is explained in the committee's recent Historical and Descriptive Supplement to Economic Indicators, the Bureau of the Census collects its overall information on the total population, the labor force, the employed, and the unemployed, by means of sample surveys of families in their homes.

The Bureau of Labor Statistics, through its cooperative Federal-State system, obtains actual payroll reports on the number of workers employed by them, for its estimates of nonagricultural employment, hours of work, and earnings.

The Bureau of Employment Security, in administering the Federal-State unemployment insurance program, obtains weekly reports for statistics on the total number of claims for unemployment benefits.

Each of these reporting systems yields valuable information on some phase of this problem which is before us.

This morning we will hear how the data from all these sources are combined to provide a view of the situation in the Nation as a whole, in various industries, and in different sections of the country. We have before us this panel of Mr. Eckler, Deputy Director of the Bureau of Census; Mr. Clague, the Commissioner of the Bureau of Labor Statistics; Mr. Goodwin, the Director of the Bureau of Employment Security.

We have asked each of them to make a brief statement, and if it is agreeable to the committee, we will proceed in our usual manner of allowing the panel and each of the members of the panel to read his statement without interruption, expecting, of course, that we will question them at length, perhaps together, after they have finished with their statements.

Senator DOUGLAS. Mr. Chairman, I assume, then, that we can question each man upon his statement after it has been read?

Chairman WOLCOTT. Senator, which do you think it preferable, that the three statements be read or——

Senator DOUGLAS. I would prefer to have each statement discussed as it is produced, because otherwise we will lose the thread, and what will happen by 12 o'clock is that the three papers will have been read and there will be no discussion.

Chairman WOLCOTT. Well, I want to meet the desires of the committee in that respect, but I anticipate that many of the questions which you would ask after the first paper is read will be completely answered if you listened patiently to the other two papers; that is what I had in mind; and we will probably cut down the period of questions and answers to a minimum if that is done. But, of course, it is my desire that we all have every opportunity to question witnesses, and I suggest that in the cause of brevity, that we go along that way, but we will see what develops as we go along.

The first of the panel is Mr. A. Ross Eckler, who is Deputy Director of the Bureau of the Census.

Mr. Eckler, we will be very glad to have you proceed.

STATEMENT OF A. ROSS ECKLER, DEPUTY DIRECTOR, BUREAU OF THE CENSUS, ACCOMPANIED BY CONRAD TAEUBER, ASSISTANT DIRECTOR, BUREAU OF THE CENSUS

Mr. ECKLER. Mr. Chairman and members of the committee, I wish to convey the regrets of Dr. Burgess, the Director of the Census, at being unable to be here to present a statement this morning. But, as indicated in a letter to you, he is en route from a trip representing the Government at an ILO committee meeting in Geneva, and is, therefore, unable to be present.

The monthly figures on employment, unemployment and the labor force compiled by the Bureau of the Census are based on a direct canvass of a scientifically selected sample of households representing the Nation.

For each person 14 years old and over, a series of questions is asked to determine the activities during the survey week. The first questions determine whether the person did any work at all in the preceding week.

If the answer is "No," the question is asked whether he was looking for work. For a person not at work or looking for work a question is asked to determine whether he had a job from which he was temporarily absent during the preceding week.

Now, on the basis of these questions, we identify as the employed group, those who had jobs or were at work, and the unemployed, those who were looking for work. The unemployed and the employed, plus the Armed Forces constitute the labor force.

Our approach to the measurement of the labor force and the establishment of the major subdivisions has been established on the basis of extensive discussions within the Government and outside as being on the whole the most satisfactory for the major needs of the Nation.

With these concepts, the determination of labor force classification of the population, 14 years old and over, is as free as practicable from subjective elements.

The concepts underlying the classification have proved to be useful for more than 10 years in describing labor force developments, both under peacetime and wartime conditions.

We recognize that not all persons will agree as to what ought to be included in a definition of unemployment. We have endeavored to present subdivisions of our labor force in enough detail so that people who want to regroup them to conform with some other definition can do so. We are not at all in disagreement with those critics who point out that the census totals of employment and unemployment by themselves do not tell the whole story. On the contrary, we would emphasize the fact that the components of the series must be very carefully studied for an analysis of recent changes in the economy.

The estimates are based on monthly interviews with a sample of 25,000 households which includes some 45 to 50 thousand persons of working age in 68 areas throughout the country. Because of the fact that this sample has been selected in accordance with mathematical principles, we are able to present estimates which have a relatively small error, and which have a known error of estimate.

Senator DOUGLAS. That is a sampling error?

Mr. ECKLER. A sampling error; yes.

During the past year, the Bureau of Census has been developing an improved sample design comprising 230 areas, but which would involve no increase in the number of households and no change in the definitions which are used in the survey (see pages 832 and 899 for materials subsequently available for the printed record.)

The main advantage of this revised sample which is now being put into operation will be that it will reflect more accurately developments which are localized in character or which vary a good deal in magnitude from one part of the country to another.

Unemployed persons include those who did not work at all during the survey week and who were looking for work. They include also certain classes of people who are sometimes called the inactive unemployed, people who would be looking for work except that they were temporarily ill or that they were on indefinite layoff or that they believed that no work was available in their particular line or in the community.

Between October 1953, and January 1954, our series of unemployment, the number of persons not working but looking for work, rose from 1,162,000 to 2,359,000.

After this rise, about half of which—not more than half of which—was in line with seasonal changes, the level of unemployment was about one-half million above that a year ago. The actual level of unemployment, when expressed as a percentage of labor force, was 3.0 per cent.

Senator DOUGLAS. Pardon me. 3.0?

Mr. ECKLER. 3.8 per cent, I am sorry—not greatly above the very low rate of 3.0 in January a year earlier.

The rise since October in the unemployment rate for men has been somewhat sharper than that for women.

Our employment series represents the total of persons at work in a given week, plus those not at work but with a job from which they were absent because of illness, bad weather, or other specified factors.

The employment total includes not only wage and salary workers, but persons working on their own account, and unpaid family workers, provided they work 15 hours a week or more.

The volume of employment, after reaching record levels for a number of months this year, has fallen appreciably in the past several months, and is currently about 1,000,000 below the level of January 1953.

Both agricultural employment and nonagricultural employment have declined and are about a half million below their levels a year ago.

Senator DOUGLAS. Doctor, I want to get that straight. 1.3 million fewer workers employed in January 1953——

Mr. ECKLER. 1954.

Senator DOUGLAS. January 1954, rather than January 1953?

Mr. ECKLER. That is correct, Senator.

Senator DOUGLAS. And 500,000 less in nonagriculture, 500,000 in all other occupations, excepting agriculture?

Mr. ECKLER. Right.

Senator DOUGLAS. O. K.

Mr. ECKLER. The employment total includes certain subclasses which are watched closely at a time of rising unemployment. Two of these special classes comprise workers who are not actually at work in the survey week but who are either on temporary layoff with instructions to return to work within 30 days or persons who are scheduled to take a new job or start a new business within the next 30 days.

These persons are not included in the count of the unemployed since they have definite jobs to which they are going to report.

Senator DOUGLAS. Doctor, they are included among the employed, are they not?

Mr. ECKLER. That is correct.

Senator DOUGLAS. Even though they are not at work and even though if they would report for work on that morning there would not be a job waiting?

Mr. ECKLER. That is correct. They have a job which is available to them within 30 days, but they are not at work; correct, Senator.

The number of persons on temporary layoff scheduled to end within 30 days increased appreciably from October to January, rising from 133,000 to 273,000.

The number of persons scheduled to start a new job or business within 30 days has usually been quite small, generally 100,000 or less, and has not shown any change since October 1953.

The other group of employed to whom special attention may be directed, consist of workers whose hours have been reduced below full time because of economic factors. Information on this subject is obtained from time to time by means of special questions asked of all workers reporting less than 35 hours a week.

In the most recent survey of this type conducted in December 1953, the number of nonfarm workers on shortened hours because of slack work and other economic factors rather than their own choice, had increased from the level of a year ago, in November, slightly over a year ago, November 1952, had increased from 700,000 to 1,200,000.

Senator DOUGLAS. Or an increase of a half a million?

Mr. ECKLER. Yes, that is correct.

In addition, there were about a half million workers who were regularly employed part-time but who said they wanted and could have accepted full-time employment. That number did not show any change over the number last reported in November 1952.

A number of persons have commented on the fact that the labor force has declined by about 500,000 since a year ago. Much of the discussion has centered around the theory that labor force changes are directly related to the growth of the population of working age, and that rather than expect a year-to-year decline, a fairly stable annual increase ought to be looked for. Often this is cited as 700,000. In the long run there is no doubt that population changes of size and composition, constitutes the most important element determining labor force growth, but population changes do not provide a uniform growth increase.

During the past year, for example, because of different rates in the growth of the young adult population and older persons, the increase that would have occurred if you had had no change at all in participation rates for various age classes would have been between 500,000 and 600,000. Moreover, in any specific period there are a good many other factors besides population growth, which exert an influence on the labor supply and the extent of labor force participation among the different population groups.

The significance of these year-to-year changes depends a good deal on the reasons for the changes. There have been two quite different hypotheses in explanation of this movement. The first is that a considerable number of persons who have lost their jobs, and who should have been identified as unemployed have instead been reported as outside the labor force. The second hypothesis is that recent labor force developments are a part of the readjustment to be expected after the expansion of the labor force that took place at the time of the Korean emergency.

First of all, I would like to consider the possibility that there are large numbers of persons who would not be reported to an enumerator as looking for work, but who should have been classified as unemployed. On a number of occasions since World War II, we have conducted special studies to learn something about the size and composition of this group which might be regarded as being on the fringe of the labor force.

The results of these special studies yield different totals, depending on the questions we use and the approach. But they seem to indicate that there is a group of 300,000 to 500,000 persons who, on the basis of extensive questions, appear to meet some of the criteria for being included in the census total of unemployment.

It is important to note that this number did not vary much under quite different economic conditions. It was about the same during a period of peak employment and declining unemployment, such as 1947 and 1948, and about the same in a period like 1949, when unemployment was rising appreciably.

On all of these dates, the group identified consisted largely of housewives and teen-agers, the groups which move into and out of the labor force with great frequency.

It is difficult, if not impossible, to distinguish between those who may be really in the labor market and those who, in response to an intensive series of questions, indicate an interest in working, but whose intention of returning to the labor force may be somewhat dubious.

The second hypothesis concerning the size—concerning the change in the size of the labor force is that it represents one of the periodic adjustments that have taken place on a number of occasions during recent years.

Large changes in the size and composition of the labor force occur in response to seasonal developments every year or in response to the special needs that are represented by war or large defense programs.

There are a number of charts which appear at the back of my summary statement which indicate some of the types of developments that take place during a period of wartime expansion.

Representative PATMAN. May I ask you a question about one of these charts? I noticed the age group in Table 6—

Chairman WOLCOTT. Would it not be advisable to let him proceed with his statement before we get to the charts, Mr. Patman?

Representative PATMAN. That would be perfectly all right. I thought as we got to these points that he was covering it would be all right to ask him about them, but I will be very glad to wait until he gets through.

Chairman WOLCOTT. All right.

Mr. ECKLER. I will not undertake to go through these charts individually, since I will be prepared to talk about them if questions arise. In the interest of saving time, I will not try to comment individually on the charts. But at least they indicate that for women the labor force rates were somewhat above normal as a result of the expansion in 1950 and 1951 connected with the demands of the Korean war.

A readjustment from those levels should not be surprising as the country returns to a more normal pattern of labor force utilization. The readjustment has doubtless been speeded up because of the fact that employers are currently in a position to exercise more selectivity in their staffing plans.

They are, therefore, likely to make fewer concessions in the way of part-time work and special arrangements, which make it possible to bring certain types of workers into the labor force.

Some support is lent to this hypothesis by the fact that labor force growth continued with little interruption during 1949 and early 1950, when cutbacks in employment and increases in unemployment were far greater than in the latter part of 1953.

A much more detailed statement on developments in recent years and the nature of our series is contained in the longer statement with tables which has been presented as part of the exhibits for the committee.

Chairman WOLCOTT. Does the committee prefer to interrogate the witnesses as they go along or allow them to continue their statements?

Senator DOUGLAS. Mr. Chairman, I respectfully suggest that we should at least have a period of questioning of the witness.

Chairman WOLCOTT. Well, I hope that we can finish up with the other statements before we get into questions and answers.

Representative PATMAN. I would like to ask him about 2 or 3 points on the tables. It probably would not take 5 minutes in all, Mr. Chairman. However, Senator Douglas may have some questions.

Senator DOUGLAS. Well, I would like to ask you about those who are temporarily laid off, Mr. Eckler. You now include them amongst the employed, but if they were to show up on the morning on which the schedule was taken, they would not be permitted to work, isn't that true?

Mr. ECKLER. If they would show up at the company where they——

Senator DOUGLAS. Where you say they have a job?

Mr. ECKLER. That is correct, Senator.

Senator DOUGLAS. That is, they have no current income, and if they worked that day, if they tried to work that day, they would not be permitted to do so?

Mr. ECKLER. That is correct.

Senator DOUGLAS. I do not think it is divulging anything given in confidence to say that when we examined Dr. Burns on this point, he said, in response to a question of mine, he thought that these people should not be counted as employed.

If you include those, if you add that number to the unemployed, you get a total, according to my arithmetic, of 2,634,000 unemployed for December, is that correct, adding those 275,000?

Mr. ECKLER. That sounds correct.

Senator DOUGLAS. As compared to a total of approximately 1,300,000 for October 1953; is that correct?

Mr. ECKLER. That is correct.

Senator DOUGLAS. So that the consolidation of those figures indicates an increase of approximately 1,300,000 since October, and an increase on temporary layoffs from 133,000 to 275,000, so that there is a real decline there in employment.

Now, on this question of part-time employment, is it not true that under the various unemployment compensation laws of the States, men do not draw benefits until their earnings fall below 50 percent, approximately 50 percent of current earnings, and since most States have so-called merit rating plans, it is to the economic advantage of the employers, instead of laying some men off completely, to work much larger percentage part-time and thus have no unemployment benefits, and thus reduce their contributions to the various funds; is that not true?

Mr. ECKLER. Mr. Goodwin may answer that.

Mr. GOODWIN. Yes, that is true, Senator.

Senator DOUGLAS. So that the tendency of unemployment insurance, combined with merit rating, in a period of declining production—is to increase part-time employment. I am not going into the merits of this now, but does it not indicate that there is a considerable amount of lost time which is covered up, an adequate amount of lost time, which is covered up in the employment figures?

Mr. ECKLER. Senator, I would like to comment on that in this way: That one of the important subdivisions of our series is the information on hours of work.

We have our people subdivided according to the various classes and, as I pointed out in the summary statement, we believe it is of great importance to look at these subdivisions——

Senator DOUGLAS. I want to say that I have scrutinized your work, and I think it is thoroughly honest.

Mr. ECKLER. Thank you.

Senator DOUGLAS. My fault is not with your work, but some of the classifications that are made, and also some of the conclusions which have been drawn from this, by merely looking at the unemployment figure, and not looking at the temporary layoff figures or the part-time figures. A great many of the gentlemen now making speeches at the Republican meetings at the Sheraton Park Hotel are attacking me claiming that I am one of the Four Horsemen of Gloom and Doom because I called attention to some of these factors.

My quarrel is not with you, but with the facile gentlemen who pop off at Philadelphia and elsewhere on the sole basis of the unemployment figures.

Now, let us take these part-time figures which I have tried to analyze. They show an appreciable increase since September and October, particularly in the group working under 30 hours a week, and I have reduced these to the loss in full-time weeks based on a 40-hour working week, and on the basis of the October figures, would be a loss of 430,000 workweeks; in November 1953, a loss of 570,000 workweeks; in January a loss of 865,000 workweeks, or this would be an increase of 430,000 equivalent unemployed, so to speak.

Now, if you want to add that figure to those which went before, and I want to warn the press not to jump to a hasty conclusion on this—you get a total of 3,537,000 unemployed, including part-time and those temporarily laid off, as compared with a total for October of approximately 1,800,000.

So that I hope that the census will be as zealous, and the Secretary of Commerce will be as zealous, in calling to the attention of the public the numbers of the involuntary unemployed and the time lost through part-time employment, particularly under 30 hours a week, as you have been scrupulous this morning in mentioning that.

Mr. ECKLER. Well, I might comment to this extent, Senator: That we feel that our job is primarily to present the subdivisions of the entire working force in such a way so that it is clear, as clear as it possibly can be, what has been taking place, and our statements concerning developments are intended to be descriptive, and it is the task of others to make interpretations.

Senator DOUGLAS. You have no control over your superiors, Mr. Eckler, I know that. But I hope very much that your superiors will call attention to the temporary layoffs and to the increase in part-time employment, as well as to the total figure of unemployment.

Now, that is said for the record. You have obviously no control of them in this matter, and I hope my words may reach up to Republican leaders meeting today at the Sheraton Park Hotel.

Mr. ECKLER. I think, Senator, that it has been done in the releases.

Senator DOUGLAS. Tucked away on page 2 or 3.

Mr. ECKLER. The difficulty is to get everything in the first paragraph.

Senator DOUGLAS. I do not think that you submit the material for the economic indicators to our committee. It is strained through the Council of Economic Advisers, is that not true——

Mr. ECKLER. There is——

Senator DOUGLAS. Or do you submit to us these tables on employment?

Mr. ECKLER. Certainly everything is available to this committee.

Senator DOUGLAS. I wondered if, in sending these figures up in the future, you would not merely indicate the numbers unemployed, but also indicate the numbers temporarily laid off but who have no jobs.

Mr. ECKLER. We have done that.

Senator DOUGLAS. Well, doesn't it come up in the economic indicators; those do not——

Mr. ECKLER. In the economic indicators?

Senator DOUGLAS. Yes.

Mr. ECKLER. I am sorry.

Senator DOUGLAS. Nor does the number of those working less than 15 hours a week, 15 to 21, 21 to 30, and so on. Those do not appear in the figures.

Mr. ECKLER. I am not sure what would be the mechanics involved to get those to the attention of this committee.

Senator DOUGLAS. Don't you think that would be a very valuable supplement?

Mr. ECKLER. It seems like useful information to me; yes, sir.

Senator DOUGLAS. I have always felt when those figures are included, a very different impression is given.

One more question, and I will be through, although it may start a long discussion, and that is on the question of the labor force: Do you think that 1,300,000 left the labor forces during the last year, approximately, or do your figures show that?

Mr. ECKLER. The figures show a drop of about 500,000.

Senator DOUGLAS. Yes, but normally, the growth rate——

Mr. ECKLER. Well, the growth rate, which might be expected under present demographic composition would be more nearly 500,000 or 600,000. So if we were to assume exactly the same labor force participation rate in each population class as we had a year ago——

Senator DOUGLAS. That is right.

Mr. ECKLER. Then there is a decline of a little over a million.

Senator DOUGLAS. In the working force?

Mr. ECKLER. In the working force.

Senator DOUGLAS. Have you been able to analyze, Doctor, as to when you think this decrease occurred? Is it spread evenly over the year or——

Mr. ECKLER. I do not have in mind the exact pattern of that.

Senator DOUGLAS. It is sometimes said that this occurred as a result of the Korean war.

Mr. ECKLER. I think it was taking place over much of the year, perhaps since mid-year.

Senator DOUGLAS. I have had your figures analyzed, and they do indicate there was a greater drop in March and April of 1953, but it continued thereafter.

Now, do you think that the termination of the Korean war would have had this continuing effect throughout the year?

Mr. ECKLER. It is a difficult judgment to make, Senator.

Senator DOUGLAS. At the end of World War II, the decrease of working force due to wives and sweethearts leaving industry, and so forth, came about suddenly in a concentrated fashion; it was not spread over?

Mr. ECKLER. It was not spread over such a long period.

Senator DOUGLAS. That is right.

Mr. ECKLER. But we had a period before the Korean war in which labor force participation rates were already quite high, and then the Korean affair came along and brought them up to a still higher point, and it seems to me quite reasonable that there should have taken place among women, particularly those who are in the age group responsible for the care of children, and among younsters, it seems to me quite likely that there would be decline, as reflected by——

Senator DOUGLAS. Yes; but do you think a decline would have been 1,100,000? Is it not possible that your figures show an excessive number withdrawing from the working force? It varies with reality; is that not so?

Mr. ECKLER. There is, of course, as you know, an element of sampling variation in these figures in terms of the labor force that amounts to several hundred thousand. You never are sure of the possibility of how much that might reduce this apparent movement.

There is, of course, as I pointed out, this question of our ability to get this fringe group. I do not know of any reason to believe that we were more or less successful or that our approach changed.

Senator DOUGLAS. You know this sort of thing brings back a lot of history to me, because 24 years ago, in 1930, this same issue was being fought out, and President Hoover was maintaining that those who were said to be temporarily laid off were not unemployed. He argued that they had a job, and he refused to count them amongst the unemployed, because, he said, they had a prospect of employment, even though it was a somewhat insubstantial prospect, and they also then were arguing that the labor force was shrinking.

Mr. ECKLER. Senator, I would like to take advantage of your remarks to go back into the history just a little bit, and draw a contrast between the status of our information and the kinds of bands of uncertainty that we have as compared to those that existed in the 1930's.

As you will well recall, we had a series of estimates of unemployment which were derived by the indirect method of estimating labor force, then subtracting the employed, and getting a residual figure which was highly volatile and erratic in character. The differences that people were talking about were in the millions rather than in terms of 200,000 or 300,000, and I think an enormous improvement has taken place in that we now get down to differences which are at a pretty low level, relatively.

Senator DOUGLAS. I am anxious to make them as accurate as possible.

Mr. ECKLER. We are, too.

Senator DOUGLAS. Don't you think you might scrutinize this question of reduction in labor force a little more carefully? You see, the labor force was increasing steadily after the postwar drop, increasing steadily for approximately 7 years, and then suddenly you show it falling by half a million, where formerly it was growing previously to 700,000 a year.

Your figures showed the labor force dropping throughout the latter part of the year, even on nonseasonal factors, when the effect of Korea would be presumed to be over. I have gone through your questions, and I would say that there might be some room for an ordinary citizen to be a little bit uncertain precisely what the enumerator was asking on these issues, and that you may be using a very sharp knife on rotten wood.

Mr. ECKLER. Senator, if I might comment just a little bit on this, first, we are looking at these figures very carefully and trying to get the best possible understanding and explanation of what is taking place.

Senator DOUGLAS. Don't you think the country should look at them carefully too, and, perhaps, the members of the Senate?

Mr. ECKLER. I certainly do.

Our methods, figures, and all the detail are an open book, and we welcome questions such as these, and any others that are raised, and they are raised from a number of directions.

I think that it might be very desirable for us to undertake another one of the supplemental inquiries in this fringe group to get some idea as to whether there is any difference, whether the behavior of the population response to intensive questions is any different now from what it was in the years 1946 to 1949.

Senator DOUGLAS. Doctor, I noticed that on the bottom of page 4 of your statement, the last two sentences, you say that the readjustment was doubtless speeded up by the fact that employers are currently in a position to exercise more selectivity in their staffing plans. I presume that is because there is more unemployment, and they have a larger range to draw from? Isn't that the meaning of that language?

Mr. ECKLER. There is either more unemployment or there is, I would say, less of an emergency demand to get every possible worker.

Senator DOUGLAS. More people looking for jobs who are not able to find them than before and, therefore, the employer has more selectivity.

Mr. ECKLER. That is correct.

Senator DOUGLAS. Then you go on to say that employers are, therefore, likely to make fewer concessions in the way of part-time work and special arrangements which are required in order to bring certain types of workers into the labor force.

Therefore, you say, the labor force or those seeking work is declining because the work is not there for them to get.

Now, have you not made a circle there? You say that unemployment is lower than is indicated because people are not looking for work, but one reason they are not looking for work is because the part-time work is not there for them to get, so that it is the change in employment rather than the change in their desires which has caused the labor force to shrink and the unemployment figure not to be as high as it otherwise would be.

Mr. ECKLER. Senator, I should be inclined to modify the statement a little, if I were making it along this line.

Senator DOUGLAS. You think there is something to my point?

Mr. ECKLER. Along this line, and that is when we are at a level, perhaps, of more than full employment or extremely high level employment, in order for employers to meet their requirements, they take on some workers with handicaps or with special problems of working 2 days a week or on special schedules, which they find inefficient and undesirable, but they do it because of the pressure for defense production or because of other pressures. So they make those temporary arrangements, but under a very slight readustment of pressures, a decline in the total demand for goods and services, they are able to make their employment patterns somewhat more efficient.

Senator DOUGLAS. What you say is the decline in demand causes the supply to fall off, that is what you are saying, and you do not count these people as being in the labor supply.

Of course, when you have a decline in employment your less efficient tend to be laid off certainly; that is what tends to happen. But this merely determines the incidence of unemployment. It does not determine the amount of unemployment, and you have it determining the amount of unemployment.

Well, Mr. Chairman, thank you.

Representative PATMAN. May I ask a question at this point, Mr. Chairman?

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. With reference to table 6, I notice that you have consecutive years from 1944, 1945, 1946, 1947, 1948, 1950, 1951, 1952, and 1953 by age groups in that table.

Now, I notice the age group from 55 to 64 years in 1944 was 6,718,-000 persons, and that figure goes up each year until 1953 when it is 8 million plus.

The 45- to 54-year group likewise is 10.8 million in 1944 and it goes up each year 1.2 million. The age group 35 to 44, does the same thing, up over 2 million each year. The 25-year to 34-year group has a similar pattern.

But the other two age groups show a decline. The 20 to 24 years group in 1944 was 9,225,000 but it has declined each year until it is down to 7.5 million in 1953.

The age group 14 to 19 years was 7.8 million in 1944, but each year it has declined until last year it was 5.2 million.

How do you account for the consistent substantial decline in these two age groups from 1944 to 1953—when all the other age groups were going up during that time?

Mr. ECKLER. I think the major difference—the major reason for the difference in behavior is that these groups were tremendously increased during the war period. A great many youngsters came into the labor force. If you look at the figures showing the labor force participation rates of young people, they showed enormous increases and, as a matter of fact, the charts at the back of my summary statement are more useful for this purpose.

The situation in 1944 was an abnormal one due to the war. Actually, as the table shows, most of the decline took place immediately after the war. There has been relatively little change since 1946. This is true for both males and females. In part it is probably to be explained in terms of the changed proportion of individuals in these age groups who are attending school. In the case of women, there is the additional element of withdrawal on the part of young women from the labor force because of marriage and childbearing.

Representative PATMAN. I cannot agree with you on that, and I want to invite your attention to your own table 14 where you give age groups. This is not the working force, this is the attaining of a certain age group. I refer you to those in the 14-year old bracket 1940–1945; the number reached 2.3 million. From 1945 to 1950 it had gone down to 2,122,000 and then in 1950 through 1953 it goes up a little bit, 2.2 million and in 1953, 2.6 million. In other words, they are going up now in 1953 when the labor force is going down.

Is it not a fact that the depression years of the early Thirties made a direct contribution to that loss of manpower, and has caused us to be scarce in manpower for industry, business, and the military the last 2 years?

Mr. ECKLER. Yes, sir. We are at a period now when the people reaching 18 years of age are at a very low point in the long-run record.

Representative PATMAN. Due to the depression years.

Mr. ECKLER. Due to the years in which birth rates were low.

Representative PATMAN. That was during the years of the depression?

Mr. ECKLER. That is correct.

Representative PATMAN. Yes.

Mr. ECKLER. Now, that is the reason why, for the figures I mentioned earlier, the long-run increase in the labor force each year because of population change is something like 700,000, but currently it is more nearly five or six hundred thousand. It is because of that period of small numbers in the mid-30's that those who are now becoming of working age and who, therefore, provide a smaller group each year, whether it is for labor force or for the Armed Forces or whatever else.

Representative PATMAN. Have you made any study or made any report as to how abnormal the birth rate was in the early thirties during the depression years? That is if it had continued on as it had been in the past and had not suffered that decline, what the population increase would have been.

Mr. ECKLER. You are assuming that there had not been a decline that took place in the thirties?

Representative PATMAN. That is right.

Mr. ECKLER. The decline that took place in the thirties was in line with and an extension of a longer run downward movement in fertility rates.

If you want to extend this, I would like to call on Mr. Taeuber, who is here today, and who is an expert on these population trends.

Representative PATMAN. Just for that question; that is the only one I want to ask.

Mr. ECKLER. All right. Could I ask him?

Mr. TAEUBER. No, sir; I do not believe we have an answer to that in quite the form in which you put the question.

Representative PATMAN. Well, in any form that will bring a comparison.

Mr. TAEUBER. The number of—I am sorry, I would have to supply that, sir; I do not have it.

Representative PATMAN. All right, that will be perfectly all right.

Mr. TAEUBER. I would be glad to supply it.

(The information referred to follows:)

No official or definitive study has been made of this matter. The following estimates were made on the assumption that the crude birth rate remained at its 1930 level through 1940 instead of dropping as it did during that decade. If this had been the case, there would have been around 3,100,000 more births in the 10 years 1931 to 1940. By January 1, 1954, there would have been 2,600,000 more persons 14 years old and over, and 1,300,000 more persons 18 years old and over.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. I would like to get this more precise—do you feel that the increase in the labor force would have been five or six hundred thousand, that is, for the year, the beginning of the year, to the end of the year, 1953?

Mr. ECKLER. That would be an average for the year based on purely demographic considerations. By that I mean assuming in each age, sex class you had the same rates of participation in the labor force as you had the year before.

Representative BOLLING. Well, making the same assumption, what would you then project the increase in the year 1954 to be?

Mr. ECKLER. It would be very close to the same amount, for as Representative Patman is bringing out, we are at this low level now, with respect to the number reaching working age each year.

Representative BOLLING. And the year 1955?

Mr. ECKLER. About the same, in the same range.

Representative BOLLING. When would the turn come?

Mr. ECKLER. Around 1956 and 1957 is when it begins to turn.

Representative BOLLING. In other words, we can anticipate an increase in the labor force this year and the next year of five or six hundred thousand on the assumptions you gave?

Mr. ECKLER. On those assumptions, that is right, Congressman.

Representative BOLLING. Is it your judgment that the people who have been the subject of some discussion, who have left the labor force, according to one of the hypotheses, have all left now?

Mr. ECKLER. I have no basis for estimating that, Congressman.

Representative BOLLING. Based on past experience in similar situations, would it be reasonable to assume that they had?

Mr. ECKLER. I would think it would be reasonable to assume that it would be pretty well over by this time, but it is a complex matter to evaluate, and it is a personal guess rather than an informed judgment.

Representative BOLLING. I am anxious to get some idea of what the time lag is from survey to publication and in a little more detail, whether a monthly survey is done in exactly the same fashion every month, whether it is supplemented by spot checks, and so on.

Mr. ECKLER. Yes, sir; this is approximately the timing on it: We interview households which are in the sample in the week including the 15th of the month. Interviews are normally completed in that week or in the first day or two of the week following, and, of course, the schedules for these interviews are sent in to Washington and pass through steps of summarization, tabulation.

Incidentally, they are now being tabulated on a new high-speed electronic device called the Univac, and we have by the end of the second week ordinarily the figures available for release; in other words, the time required here is a litle over, well, it is about 10 days.

Representative BOLLING. In other words, the survey—what was the date of the last survey, the last publication of the survey?

Mr. ECKLER. The last figure was published on the 29th of January.

Representative BOLLING. That information was developed at what time, without precision, but generally?

Mr. ECKLER. Well, the information was collected during the week of the 11th to the 15th, and the summarization was going on here beginning the 18th and, perhaps, by the middle of the next week it had gotten through the machines and was ready for analysis.

Representative BOLLING. How large a force is devoted to this procedure?

Mr. ECKLER. I beg your pardon?

Representative BOLLING. How large a force is involved in this procedure, and are they full-time or part-time employees?

Mr. ECKLER. The field work is purely on a part-time basis. The enumerators are on a part-time basis; they are taken on for the particular week.

There is, in addition, a small supervisory field staff which is responsible for the instructions in handling the work for whatever supplemental questions come in, training enumerators, selecting new ones, and so on, but that consists at present of about 30 offices. We have the equivalent of 14 full-time persons on this work in Washington.

Representative BOLLING. Do I gather from this that you feel you have optimum operation, that you have adequate resources in equipment and personnel to conduct this with the greatest reasonable accuracy?

Mr. ECKLER. I believe that we have a proper balance of organization and facilities. We are not aware of anything that we could introduce at the moment which would speed up this operation. We believe that it is a rapid-moving efficient operation, and we believe that the results are being put out with a very high degree of precision.

Representative BOLLING. Getting down to the core of it, then you feel that you have adequate appropriations to perform this particular service?

Mr. ECKLER. The question that might be raised is whether it would be desirable to do more of these supplemental inquiries or to expand the sample periodically.

I might note that our work has been reviewed with a great deal of care by a committee of business experts within the past few months, and this committee indicated strong approval of the work being done, and among the experts who looked into it there were some suggestions that, if possible, it might be expanded. But we believe that the size of the present sample does give results which are relatively—which have a relatively small degree of error, and which are highly useful for the purposes to which they are applied.

Representative BOLLING. Do I understand that you would require additional resources to do a more thorough and detailed job in some of these supplementary fields?

Mr. ECKLER. We hope to be able to do some of that within the present resources.

Representative BOLLING. Thank you; that is is all, Mr. Chairman.

Chairman WOLCOTT. Mr. Eckler, with respect to the figures which you have given us here this morning, have the procedures and definitions and classifications by the Bureau of the Census been changed recently?

Mr. ECKLER. They have not changed recently, Mr. Chairman. From time to time over the past 10 years it has been possible to introduce improvements, improvements in the sample design, improvements in the kind of questions to be asked, improvements in weighting, in technical methods of putting the results together, and we are always looking for those improvements.

Chairman WOLCOTT. There are no changes in concepts?

Mr. ECKLER. No changes in concepts, no; there have been none.

Chairman WOLCOTT. Have you got figures on the average unemployment in 1939 there?

Mr. ECKLER. No, sir. The backward projection, I understand, is 9½ million people.

Chairman WOLCOTT. I have a figure here of 9,480,000; would that be approximately correct?

Mr. ECKLER. It is.

Chairman WOLCOTT. I have a figure here also in 1950 that the unemployment figures, based upon this same concept, definitions, procedures of the census, was 4,648,000; is that substantially correct?

Representative PATMAN. What kind of figure, Mr. Chairman?

Chairman WOLCOTT. The average.

Representative PATMAN. No, it could not have been that; not the average, no.

Mr. ECKLER. That was the peak, I believe, for February of that year.

Chairman WOLCOTT. All right, the peak, then.

In 1945, can you give us any information on what they were then?

Mr. ECKLER. The unemployment?

Chairman WOLCOTT. Yes.

Mr. ECKLER. The annual average for 1945 was 1,040,000.

Chairman WOLCOTT. And 1949?

Mr. ECKLER. 1949, the average was 3,395,000.

Chairman WOLCOTT. Those figures were arrived at in accordance with the same procedures, definitions, and concepts as these figures that you arrived at that were given here today?

Mr. ECKLER. Yes, sir.

Chairman WOLCOTT. Did you notice any criticism——

Mr. ECKLER. May I amend that just to this extent: That the 1939 figure was not based on this same approach. That was prior to our series being established, and was an estimate backward from the 1940 census.

Chairman WOLCOTT. Did you notice any criticism by this committee or the members of this committee in respect to these procedures, definitions, concepts of this in 1945, 1949, 1939?

Mr. ECKLER. I am not aware of any, Mr. Chairman.

Chairman WOLCOTT. I think I am very much aware of the fact that there was no criticism of the definitions, criteria, procedures, concepts on which you arrived at these figures on the dates that I have mentioned. So, for purposes of this record and the information which we are trying to get here, the figures which you have given us here today are based upon substantially the same concept of the situation that you have been using during the past years?

Mr. ECKLER. That is correct.

Chairman WOLCOTT. That is all.

Now, may we proceed to Mr. Clague?

Representative PATMAN. Just one thing, Mr. Chairman, I do not think it was clear about that 1950 unemployment figure. The figure that I think the chairman mentioned was a peak in February 1950. What was the average for 1950?

Mr. ECKLER. The average for 1950 was 3,142,000.

Chairman WOLCOTT. This peak was previous to Korea?

Mr. ECKLER. Yes, that is correct; that was in February.

Chairman WOLCOTT. February, yes. Of course, in taking your average, then, the average which brought it down to 3 million, you would have to take into consideration the increase in employment following the Korean outbreak?

Mr. ECKLER. That is correct.

Representative PATMAN. But the peak fell off from February. It was less in March, less in April, and the Korean emergency did not——

Chairman WOLCOTT. I am looking for a comparable situation; a comparable situation in 1950, of course, was previous to Korea.

Next is Mr. Clague, Commissioner of Labor Statistics. Without objection, Mr. Clague may proceed with his statement, and I might suggest at this point that without objection the statements of these witnesses and members of the panel, together with such material that they would like to supplement and submit to the members of the committee, and the graphs which accompany their statements, may be inserted in the record.

(The prepared statement of the Bureau of the Census follows:)

STATEMENT OF THE BUREAU OF THE CENSUS TO THE JOINT CONGRESSIONAL COMMITTEE ON THE ECONOMIC REPORT ON RECENT DEVELOPMENTS IN UNEMPLOYMENT AND THE LABOR FORCE

I. EMPLOYMENT SITUATION IN JANUARY 1954

Unemployment continued upward in January, reaching a level of 2.4 million, or roughly half a million above the December figure. At the same time, employment fell sharply, with the midwinter contraction in seasonal lines as well as some cutbacks in other activities. The estimate of total civilian employment in the week ending January 9 of 59.8 million was about 1 million lower than a month earlier. The employment total includes the self-employed and unpaid workers in family-operated enterprises as well as wage and salary workers.

The rise in unemployment in January, although substantial, was only slightly greater than the post-Christmas rise in most other years since World War II. It was smaller than the drop in employment chiefly because many of the housewives and others holding temporary jobs for the holidays withdrew from the labor force. As compared with a year earlier, unemployment in January was approximately half a million higher than in January 1952, and the proportion of all civilian workers out of jobs increased to 3.8 percent from 3 percent over this period. Nevertheless, the unemployment rate was still smaller than at the beginning of most other postwar years.

In addition to the unemployed, there were approximately 275,000 persons in January who were on temporary layoff from their jobs with definite instructions to return to work within 30 days of the date of layoff. This number was some 80,000 larger than both in the previous month and in January of a year ago. This group is included with the employed because the persons have definite jobs to return to within a relatively short period and were not looking for other work.

Nonagricultural employment fell to about 54.4 million in January from 55.3 million in December. The withdrawal of women who had taken jobs for the holiday shopping season and the usual contraction in building activity accounted for much of the drop. There were also, however, some additional cutbacks among men in factory jobs. In January, as in December, total nonagricultural employment was running about half a million under the level of a year earlier; previously, nonfarm employment had been at an alltime high for several months. Recent reductions in employment have been accompanied by a sharp curtailment in overtime work in most major industry groups. Among factory workers in January 1954, for example, only about 19 percent reported a workweek exceeding 40 hours, as compared with 28 percent in aJnuary of the 3 preceding years.

Agricultural employment remained at a winter low of 5.3 million in January. As was the case throughout 1953, however, the number employed on farms was considerably lower than in the corresponding month of the previous year. In January, this year-to-year decline amounted to 500,000.

The total labor force, which includes the employed, the unemployed, and the Armed Forces, was estimated at 65.6 million in January, roughly half a million under both the December total and the level in January 1953. The reduction from a year earlier, which continues the pattern observed in the final quarter of 1953, follows several years of steady growth in the labor supply.

II. RECENT CHANGES IN UNEMPLOYMENT AND UNDEREMPLOYMENT

Total unemployment

The current rise in unemployment started late in 1953 and developed when many other indexes were still recording high levels of business activity. In October 1953 unemployment at 1,162,000 was at a low point not only for the year but also for any October since World War II. Only 1.8 percent of the civilian labor force was looking for work. Three months later, the number of jobless persons had risen to 2,359,000—3.8 percent of the labor force. An unemployment rate of 3 to 4 percent (allowing for seasonal variations) has, for many years, been thought to approximate a normal frictional rate—that is, the rate which could be accounted for by job turnover and the more or less accidental factors of personal adjustment in the labor market. The amount of attention drawn to the January situation is in large part due to the swiftness of the rise from the record low point.

In the analysis of changes in unemployment and the labor force in the most recent months, it is difficult to separate the movements associated with seasonal factors and those that signal more serious developments. Also, since all of the Census Bureau figures are based on a sample, they are subject to sampling variability. Relatively small changes may be only random fluctuations, particularly in the case of changes in small numbers. Therefore, until the recent changes are seen in the light of further observations in the next few months, present evaluations and conclusions must be only tentative.

Until the last quarter of 1953, unemployment had been drifting downward almost without interruption since 1950. Temporary upturns occurred on the occasion of the 1952 steel strike, as well as each year when young people enter the labor market at the close of school or in the winter months when bad weather limits outdoor work. The average unemployment rate of 5 percent in 1950 was reduced to 3 percent in 1951, 2.7 percent in 1952, and in the first quarter of 1953 was 2.8 percent; in the second quarter 2.3 percent, and in the third quarter 2.1 percent. By the last quarter of 1950 it was again 2.3 percent.

Some of the unemployment during the years since 1950 represented job turnover as many labor force members looked for defense employment. A substantial part arose from the job-seeking activity of new workers or experienced workers, chiefly women, who had returned to the labor force after a period of absence due to marriage, family responsibilities, etc. Unemployment rates were slightly higher for women than for men during these years, and considerably higher for young workers than for adults.

Between October 1953 and January 1954, however, this picture changed abruptly. The number of unemployed men more than doubled (mounting from 736,000 to 1,688,000) while the number of unemployed women moved up much less sharply (from 425,000 to 672,000). The proportion of men, which had been running at roughly two-thirds of the jobless total or less, rose to almost three-quarters (71.6 percent).

Adult workers felt the impact of layoffs more than did young workers. The number of men aged 20–64 who were jobless and looking for work rose from 552,000 to 1,431,000; the number of women in this age group rose from 323,000 to 571,000. Teen-agers seeking jobs remained between 200,000–300,000.

At the year's end, men, presumably family heads with dependents in most cases, constituted about 60 percent of the total unemployed. An estimated 6–8 percent in addition were single, widowed, or divorced women, many of whom likewise were the principal source of support of themselves and their dependents. The remaining one-third of the unemployed were teen-agers, married women, and persons 65 and over, some of whom may be expected to leave the labor force if jobs become extremely hard to find.

The impact of unemployment was disproportionately heavy among nonwhite workers in January, as in every other month for which data have been collected. Nonwhite workers made up only about 10 percent of the civilian labor force but accounted for 16 percent of the unemployed. Nonwhite men had a particularly high unemployment rate: 7 percent as compared with 3.5 percent for white men. The relatively large proportion of nonwhite men in construction and agriculture, both industries that are seaconally low in January, may account for part of this sharp difference.

Census figures on changes in employment status of identical persons between consecutive months show that there is a high degree of turnover in the unemployed group from month to month, even in periods of rising unemployment. Although the net increase in unemployment between October and January was about 1,200,000, close to 3 million workers entered the unemployed group during the 3-month period. Partially offsetting these additions, about 1,800,000 previously jobless persons returned to work, or left the labor force. The January unemployed were, therefore, still largely short-term unemployed. Three-fifths had been looking for work for 6 weeks or less. However, some 250,000 of the unemployed in January reported that they had been looking for work for 3 months or more, despite the high employment levels of the months prior to October.

The rise in total unemployment since the October turning point has been in part seasonal, reflecting the curtailment of outdoor work as well as the annual slack periods in certain manufacturing industries (automobiles, food processing, lumber, apparel). Data are not available to measure precisely the amount of increase that arose from nonseasonal causes, but a comparison of January 1954 with January 1953 will give some indication. The percentage of the male labor force that was unemployed in January 1954 was 3.9 percent as compared with 3.1 percent a year earlier. For the female labor force, the rise was from 2.8 to 3.6 percent.

Over the years, unemployment rates rose somewhat in all major industry groups. (The unemployment rate is the proportion of all wage and salary workers in a given industry who were unemployed. For the employed, the industry is that of the current job; for the unemployed, that of the last full-time job.) Between January 1953 and January 1954, unemployment rates in manufacturing increased from 3.1 percent to 4.3 percent; in construction from 9.1 to 11.4 percent; in transportation and public utilities from 2.8 to 3.7 percent; and in trade from 3.0 percent to 4.0 percent.

Reduction in hours

In addition to the unemployed, that is, jobless persons who are looking for work, some employed workers in the labor force are also affected by cutbaks in production through a reduction in the length of their workweek.

Part-time employment due to reduction in business activity has shown a marked increase between the end of 1952 and the end of 1953, and has generally taken the form of a 3- or 4-day workweek. Special Census Bureau surveys of part-time workers, i. e., those who worked less than 35 hours at their jobs during a specified week, give data for November 1952 and December 1953. In the week ending December 12, 1953, some 8,300,000 persons worked less than 35 hours. Of this number 1,500,000 were regular full-time workers who reported shortened hours because of slack work, layoffs during the week, and similar reasons. Nonfarmworkers working short time for these reasons numbered 1,250,000 or half a million more than in November 1952. Factory workers accounted for about 200,000 of the increase and construction workers for an additional 100,000. The number of farmworkers affected by slack work (280,000) was also above the previous year's level. Part of the change in both construction and farmwork is due to the difference in timing of surveys; December is usually a lower point in these activities than is November.

It should be noted that all the Census Bureau surveys of part-time employment since 1947 have shown that most of the workers with less than full-time hours of work are not victims of economic disturbances. Rather, they are either voluntarily working part time because they do not want or cannot take full-time jobs, or they are temporarily working part time for reasons such as illness, holidays, personal considerations, weather conditions, etc. In addition, there is a group who regularly work on a part-time basis but who prefer and could accept full-time jobs. Their numbers do not fluctuate very much, although they do tend to increase somewhat in periods of rising unemployment. No increase occurred between 1952 and 1953, however.

Overtime work has also been reduced in recent months. Between January 1953 and January 1954, the proportion of wage and salary workers working more than 40 hours dropped from 28.4 to 23.8 percent in construction, from 27.1 to 18.9 percent in manufacturing, and from 32.0 to 23.9 percent in transportation and public utilities.

Persons on temporary layoff or waiting to start new jobs

According to the labor force concepts used by Census Bureau, persons who were not looking for work but who had jobs from which they were temporarily absent are classified as employed (see section on "Census Bureau Concepts of the Labor Force"). Typically most of this group are absent from work because of illness, vacation, bad weather, or for various personal reasons. Two categories may be singled out as reflecting economic factors for the most part: persons who had been laid off from their jobs temporarily with instructions to return at some definite date within 30 days and persons waiting to start new jobs within 30 days. The "temporary layoff" group should rise when total unemployment rises, the "new jobs" group when total unemployment diminishes.

It has been rather widely believed that temporary layoffs would multiply at the start of a business downturn, perhaps more rapidly than complete separations. Employers were thought likely to use this procedure as a way of holding on to their labor force until business grew definitely better or worse. However, between October 1953 and January 1954, the number reported in this status, according to the Census Bureau survey, rose by only 140,000, reaching about 275,000. This compares with 195,000 a year earlier, in January 1953.

The group waiting to start a new job, and therefore not working or looking for work, is normally very small. In January 1954 it was estimated at 74,000 as compared with 86,000 in October 1953, and 80,000 in January, a year earlier.

Comparison with 1949

The unemployment situation in January 1954 is not unlike that recorded in January 1949, 3 months after the turning point in October 1948. Of course, it cannot be concluded on the basis of this rather meager evidence alone that 1954 will follow the pattern of 1949, for many conditions differ widely between the two dates. The number of unemployed persons in January 1949 was 2,664,000 and the rate was 4.4 percent, both slightly higher than in January 1954. As might be expected from the similar timing of the two downturns, unemployed workers had been out of jobs on the average for 7.7 weeks in January 1949, and 7.8 weeks in January 1954. Men constituted a slightly larger proportion of the total in 1949 (75 percent compared with 72 percent) but there were relatively more young workers unemployed then than in 1954. Except for the teen-age groups, the unemployment rates in specific age groups were not markedly different in 1949 and in 1954.

Somewhat higher unemployment rates were recorded in all major industry groups in 1949 than in 1954 except for transportation and other public utilities; in these industries the rate was 3.7 percent in January 1954 and 3.1 percent 5 years earlier. In manufacturing 4.9 percent of the workers were jobless in 1949 and 4.3 percent in 1954. Differences of about the same magnitude are shown in the figures for other industries with the exception of construction in which 14.6 percent of the labor force was unemployed in January 1949 and 11.4 percent in January 1954.

III. CHANGES IN THE LABOR FORCE

Aside from the rise in unemployment, perhaps the most widely discussed recent development in the employment field has been the contraction of the labor force during 1953. Actually, for the year as a whole, the labor force was about as large as in 1952; and it was only in the fourth quarter that there was a noticeable year-to-year decline. Following several years of rapid expansion, however, even stability in the labor force would have occasioned some comment.

Much of the current discussion on the subject has centered around the assumption that labor-force growth is directly tied to the increase in the population of working age and, therefore, that a fairly stable annual increment, frequently cited as 700,000, is to be expected. In the long run, there is no doubt that changes in the size and composition of the population are the most important single element in labor-force growth. Over shorter periods of time, however, many other factors exert a strong influence on the labor supply.

Even during the course of a year, the labor force—as measured on the basis of current activity or status—may fluctuate by several millions. The range between the worker total in the winter months—when both farm and nonfarm activity are at a seasonal low—and the summer peak—when large numbers of students, take temporary jobs—may be as large as 4 to 5 million in a typical year. Moreover, because a sizable segment of the population works only part time or intermittently, as many as 3 million may enter the labor force and a similar number may leave in a single months.[1] Viewed in another way, the number of different persons who work for any period of time during a calendar year may exceed the labor-force total at the seasonal peak by as much as 10 million.[2]

Of greater significance is the flexibility of the labor force under emergency, especially wartime conditions. The best illustration of this tendency, of course, is the experience during World War II. Between 1940 and the peak of the war in 1944, the labor force expanded by roughly 10 million, a rate of growth which was 3 to 4 times that which could have been expected as a result of population increase. The 5 million contraction in the labor force in the first year following the war demonstrates the readjustment that is likely to occur after an emergency of that scope.

Fortunately, we have not seen for many years a prolonged economic downturn. There is strong reason to believe, however, that any serious downturn could significantly affect the labor force participation of many groups in the population.

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[1] Reference: U. S. Bureau of the Census, Current Population Reports, Gross Changes in the Labor Force, Series P–59.

[2] Reference: U. S. Bureau of the Census, Current Population Reports, Work Experience of the Population, Series P–50, Nos. 8, 15, 24, 35, 43, and 48.

Although extensive fluctuations in the labor force are not uncommon, it is true that the contraction during the latter part of 1953 is the first of its kind since the World War II readjustment and, as such, merits critical study. It can, perhaps, be best understood by examining the background leading up to these events.

Early postwar period, 1946–50.—The transition from a wartime to a peacetime economy after World War II without serious dislocations is one of the most striking phenomena of our times. Unemployment, of course, rose considerably above the abnormally low wartime levels; and large numbers of women, youngsters, and older men withdrew from the labor force to resume their normal activities. However, the economy, buttressed by pent-up civilian demand and worldwide needs, reached unprecedented peacetime levels during the latter forties.

The immediate postwar readjustment in the labor force was virtually completed by the third quarter of 1946. At that time, there were approximately 5 million fewer persons in the labor force than on V–J Day. In the rapid expansion that followed, an average of 900,000 workers a year were added to the labor force between 1946 and 1950. Veterans of the war, who gradually returned to the labor force during this period, accounted for roughly half of the gains.[3] Large numbers of veterans, of course, had remained outside the labor force for varying lengths of time following their discharge in order to attend schools and colleges under the GI bill; others had undergone a period of readjustment and, in some cases, physical rehabilitation before resuming their normal civilian pursuits. At one time, it had been anticipated that the return of veterans would result in a large-scale displacement of other workers. This eventuality never came to pass, however, at least on an overall basis. Instead, millions of new jobs opened up during the period to accommodate both the veterans and the large numbers of other new entrants.

Aside from the veterans, married women—especially those past 35 years of age—accounted for most of the additional labor supply in the latter forties. The growing tendency of married women to work outside the home had, for several decades, been one of the most significant developments in the employment field; and the already strong trend was given tremendous impetus by World War II. Freed from many household duties by the introduction of labor-saving devices in the home and by the historic reduction in family size, women have been becoming available for gainful employment in rapidly increasing numbers during the present century. At the same time, job opportunities for women have been keeping pace, with changing social customs, the simplification of industrial processes, and the expansion of the clerical and service fields, among other things. By the spring of 1950, the number of working wives had increased to a point where it was well above the wartime level; and even the proportion of married women who were working was approaching the rate at the peak of the war.

Another effect of the war, which also influenced postwar developments, was a reversal of the long-term downward trend in the labor force participation of teen-age youngsters and older men. During the half century preceding 1940, the proportion of workers in both these groups had been steadily declining—the youngsters because of extensions in education and child labor laws, and the oldsters because of the trend toward earlier retirement. The shift of the population from rural to urban areas also contributed to this change, since the working life on farms traditionally starts earlier and extends longer than in cities. With the widespread labor shortages generated by the war effort, however, students began taking jobs outside of school hours in unprecedented numbers; similarly, many older men either came out of retirement or postponed their withdrawal from the labor force. At the conclusion of the war, these groups also experienced sharp initial cutbacks, but the labor force participation of students eventually stabilized at a level considerably above prewar. Among older men, the proportion working gradually drifted back to prewar levels, although the number in the labor force remained close to even the wartime peak because of the increased population in this age group.

Interestingly, the economic downturn of 1949 had relatively little effect on labor force growth. The increase from 1948 (about 800,000) was a little smaller than the average for the postwar period and there was some reduction in labor force

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[3] Actually, some 4 million veterans were added to the civilian labor force during this period, but only part of these represented net additions to the total labor force (including the Armed Forces) since many immediately took civilian jobs following their discharge. The net additions to the total labor force (estimated roughly at 2 million) represented those veterans who had left the labor force following their discharge and remained in a nonworker status for substantial periods of time before taking or looking for civilian jobs.

participation among youngsters but these deviations were relatively minor. The recession, of course, was neither very severe nor prolonged. Moreover, in spite of substantial gains in the 2 preceding years, there is no evidence that the labor force had "overexpanded," using as a yardstick the labor supply that might have been anticipated under the economic conditions then prevailing.

Effect of Korean war.—The outbreak of hostilities in Korea in 1950 came at a time when the economy was making a recovery from the downturn of the previous year. Unemployment had dropped to around 3 million and civilian employment was at an all-time high.

In the first year of the Korean conflict, close to 2 million young men were drawn into the Armed Forces, some from schools and colleges, but most from the civilian labor force. At the same time, both defense and civilian production were expanding rapidly, creating serious labor shortages in many parts of the country. Under these circumstances, the labor force again exhibited the flexibility observed in similar emergencies in the past; but conditions were markedly different from the comparable period preceding World War II. In the first place, the pool of unemployed was only 40 percent as large in 1950 as 10 years earlier, and the labor reserve had also shrunk because so many more women and youngsters were already working. Moreover, the number of young persons reaching working age each year—the group which normally supplies many of the new labor-force entrants—was diminishing in the early fifties because of the low birth rates of the depression of the thirties.

In spite of these limiting factors, the labor force increased by roughly 1.2 million between 1950 and 1951, a gain that was about as large as that recorded between 1940 and 1941, the year of defense buildup preceding World War II. Married women and students again accounted for most of the expansion, but there was evidence that the economy was dipping far into the labor reserve for these additional workers. By the spring of 1951, for example, the proportion of married women who were in the labor force was already well above the peak during World War II. Moreover, unlike other postwar years, a large proportion of the women added during the year were the mothers of young children; the labor-force attachments of many of these, of course, may of necessity be marginal and irregular. The same could probably be said for many of the added student workers, even though labor-force participation of young students during this period never approached the World War II peak.

Unlike the other groups, the labor-force participation of older men actually contracted in the months following the outbreak of the Korean conflict. Perhaps the principal reason was the amendment in 1950 of the Social Security Act whereby coverage was extended and benefits were substantially increased.

Following the initial upsurge, labor-force growth slowed perceptibly between 1951 and 1952. The year-to-year rise amounted to only 600,000, one of the smallest in the postwar period. Among married women, there was little if any overall gain, although labor-force participation continued upward for those past 35 years of age. The year 1952 was, of course, marked by a prolonged steel strike which slowed economic activity over a period of months. Moreover, many industries were apparently meeting their increased labor needs through overtime work. But the principal factors limiting labor-force expansion at that time may have been the temporary depletion of available labor reserves during the previous year and the high birth rates of this period which restricted the participation of young women.

Developments during 1953.—During the first quarter of 1953, the labor force was about 800,000 larger than in the comparable period of 1952, but the gap narrowed rapidly as the year progressed. In both the second and third quarters of the year, the total number of workers was no greater than a year earlier; and, by the fourth quarter, it was running about half a million below the 1952 level, on the average.

Among men in the age group 25 to 64 years, the number of workers remained above the 1952 level throughout the year. This is the group, of course, which represents the core of the full-time labor force; and the increase (200,000 to 300,000) is not much different from that expected as a result of population growth. On the other hand, declines were observed during the year among all the groups—married women, students, and older men—which include a substantial proportion of marginal and intermittent workers.

In the fourth quarter of 1953, there were roughly 400,000 fewer adult women (20 years old and over) in the labor force than a year earlier. Practically all of the decline was recorded among young women 20 to 34 years of age, the group which includes most of the mothers of very young children. There were about as many women workers past 35 years of age as in the final quarter of 1952; but, since the population in this age group continued to increase, this meant that the proportion working dropped in 1953 for the first time since the World War II readjustment. As noted earlier, women past 35 had accounted for much of the labor-force expansion in the previous postwar period, and the proportion working had been increasing steadily year after year.

Among teen-age youngsters, primarly those who were still in school, the number of workers dropped by some 200,000 between the last quarter of 1952 and the end of 1953. Among men 65 years old and over, the reduction amounted to 100,000 over the same period. To some extent, these changes represented a continuation of the long-term downtrend in the proportion of persons in these age groups who were working; but the reductions were larger than would normally be expected in a single year. Population changes played a part in accentuating the declines. Because of the abnormally low birth rates during the period 1933 to 1937 and the rise thereafter, more of the teen-agers in 1953 were 14 to 15 years old (where the proportion working is very low) and fewer were in their late teens than was the case in the earlier postwar period. Among older men, an increasing number were in their seventies and eighties, where labor force participation is sharply reduced.

Various explanations have been offered for the contraction of the labor force during the latter part of 1953. Some of these are admittedly conjectural but, together, they form a fairly reasonable picture of what probably transpired during this period. As implied earlier in this discussion, the labor force, during the period of Korean fighting, probably included many persons who would not have been working except for the existence of a national emergency. In April 1951, for example, it is estimated that there were roughly half a million more women in the labor force than would have been anticipated at that date even under prosperous peacetime conditions.[4] Many of those drawn into the labor force during this period were probably not working because of sheer economic necessity, but rather to take advantage of unusual job opportunities and to make some extra money or meet various other short-term objectives. Others undoubtedly responded to patriotic appeals for workers in labor shortage areas; and still others took jobs because of the induction of sons and husbands into the Armed Forces. Many of these added workers, of course, could work only part-time or intermittently because of family or school responsibilities; but jobs of this kind were not difficult to find during the period in question.

By the summer and fall of 1953, the situation had changed in many respects. With the end of Korean fighting, some of the patriotic motives for working undoubtedly subsided. In fact, it has been pointed out elsewhere[5] that the withdrawal of women from the labor force, possibly in anticipation of an early truce, had started well before the armistice and before any signs of cutbacks in defense or civilian production. Moreover, the types of part-time or intermittent jobs that many of these persons wanted were probably becoming more difficult to find. With a buyer's market developing in many lines, employers were doubtless seeking, and were more successful in recruiting, a more stable and productive work force. These developments probably induced many marginal workers to withdraw from the labor force and discouraged others from entering.

Whether or not these withdrawals were voluntary is, of course, a moot question. However, they paralleled, on a small scale, the experience at the end of World War II, when large numbers of temporary wartime workers reacted to the changed situation in a similar fashion. The degree of volition also does not alter the fact that many families will be receiving one less pay check (although the loss may have been a small one in many cases) with the withdrawal of a secondary family member from the labor force. Whether these changes will have any noticeable effect on overall purchasing power will, of course, depend on the extent to which the trend continues in 1954. But, in any event, it is evident that changes in the labor force cannot be neglected in any serious evaluation of the employment picture.

IV. OUTLOOK FOR POPULATION AND LABOR FORCE

The acceleration of population growth during the wartime and postwar periods had brought our total population (including Armed Forces overseas) to 161

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[4] Reference: U. S. Bureau of the Census, Current Population Reports, A Projected Growth of the Labor Force in the United States Under Conditions of High Employment: 1950 to 1975, Series P–50, No. 42.

[5] Economic Report of the President, aJnuary 1954.

million by the first of this year. The main factor in this acceleration has been the great and sustained rise in the number of births, although declines in the death rate and increased immigration have also contributed. The size of our population in 1960 cannot be very precisely determined, largely because of uncertainties about the future number of births. There is almost certain to be a continuation of rapid growth, however. Even if birth rates fall by 1960 to roughly the levels prevailing just before World War II, the population of the United States should total about 174 million. If they continue at the present very high levels, the total should be about 3 or 4 million larger.

The interplay of the components of population change—births, deaths, immigration, and emigration—have also produced alterations in the age and sex structure of our population. Over the long run, we have had an aging population. The average (median) age rose from 23 in 1900 to 30 in 1950, for example. The recent "baby boom" has checked this rise of the average age, at least temporarily; and it has remained nearly constant since 1950. Between now and 1960, the median age of the population is not expected to change much.

The two extreme age groups, children under 5 and old folks 65 and over, have been the most rapidly growing sectors of the population. Young children increased their proportion in the total population from 8.0 to 10.9 percent between 1940 and 1953, while the elderly were increasing theirs from 6.8 to 8.4 percent. Meanwhile, the proportion of those in the most active working ages, 20 to 44 years, dropped from 38.9 percent to 36.2 percent; and persons in the later working ages (45 to 64 years) just about maintained their share. All of these broad age groups were increasing in absolute numbers.

We may also note how the population of working age, even though growing, has lagged behind the total population. Between 1940 and 1953, the total population increased its numbers by 21 percent. Persons 14 years old and over increased by 15 percent, persons 18 to 64 years old by 14 percent, and persons 25 to 44 years old by 17 percent.

The average annual number of young people attaining age 14 was less in the late 1940's (immediate postwar period) than in the early 1940's (wartime). The comparative figures were about 2.1 million and 2.3 million. In the past 3 years, however, the annual accretion to the population of working age has gone up again to 2.2 million, and between now and 1960 it will rise to 2.6 million.

Since labor-force participation is quite low at age 14, a better beginning age is 18 when, for the first time, more than half of boys are in the labor force. The trend in the number arriving at this more significant age lags behind that for 14 years old, of course, and is not affected by the upturn in births until 4 years later. The annual average since 1950 of 2.1 million represents the trough of this trend as compared with about 2.3 million annually for 1945–50 and 1953–60.

Elderly persons attaining age 65, on the other hand, have shown a steady increase in numbers. This number now exceeds 1 million a year and will average 1.2 million a year between now and 1960. Although over half of men now stay in the labor force for several years after 65, the long-run trend has been toward earlier retirement. Ages 18 to 64 roughly define the most important period of full-time labor-force activity.

The net effect of the above changes is as follows for persons 18 to 64. During the 1940's they increased by an average of about a million a year. Since 1950 their annual increase has dropped off to 650,000. There will be very little upturn in the period 1953–55, but in the next 5 years there should be a partial recovery to 775,000.

The figures for all working ages (14 and over) are: 1940–50 and 1950–53, 1,200,000; 1953–55, 1,100,000; and 1955–60, 1,500,000. The large annual increase for the latter half of this decade reflects the arrival at age 14 of children born during the war.

From another angle, it may be seen that the population 14 and over will increase 11.7 percent during this decade, about the same as last decade's increase of 11.5 percent. For the more important working ages of 18 to 64, however, there will be a drop—from 11.7 down to 7.8 percent. Finally, for the prime working ages, 25 to 44, decennial growth will drop from 14.3 percent down to only 2.4 percent. Thus labor-force growth will receive less support from population growth in the 1950's than in the 1940's.

During the 1950's the growth of the total population may amount to 14 to 17 percent depending on the assumption as to future births. These much larger rates of increases imply a relatively greater increase in the numbers of dependent children and old people and thus a growing load for some years ahead on the labor force. Furthermore, the older working ages, 45 to 64, will increase much more rapidly than the prime ages of 25 to 44—19 versus 2 percent.

At the present time, the number of males nearly equals the number of females in the total population. Male births slightly but persistently exceed female births. Immigrants have tended to include more males than females. Females have lower death rates, age for age. With the shutting off of heavy immigration during the 1920's and with the mortality of females being reduced faster than that of males, the number of males per 100 females has dropped from a peak of 106.0 in 1910 to 98.9 in 1953. This ratio will probably be a little lower in 1960.

The excess of females tends to increase with age. Thus, in the population 14 years old and over, the sex ratio is now 97.1. Among those 18 to 64 and 25 to 44, it is 97.9 and 96.7, respectively. By 1960 there will be a somewhat larger proportion of females in the two broader age groups; but in the prime working ages, there should be very little change. The increasing number of widows in an aging population has represented a moderate source of increase in working women; widows are much more likely to be in the labor force than married women of the same age. On the whole, population changes have played a minor part in the increasing feminization of the labor force, and the same is likely to be true in the future.

Impact of these changes on labor force growth.—The latest projections of the labor force by the Bureau of the Census were based on earlier official population projections. Use of the later projections would not have changed these figures very much, however, especially through 1960.

The projections represent the labor force that would be expected on the basis of trends observed during the past several decades, with the further assumption that the high-level employment characteristic of the period following World War II will continue. Implicit also in these figures (as in the population projections themselves) is the assumption that, although an adequate military establishment will be required for purposes of national defense, the United States will not be involved in another world war during this period.

These projections are, thus, intended as a rough indication of the extent of labor force participation in a prosperous peacetime economy. In the event of a serious recession, it is likely that labor force participation rates, particularly those for women, young persons, and older men, might fall short of this assumed standard. On the other hand, the experience of World War II suggests that, in the event of an all-out war, the rates would undoubtedly exceed the projected figures. In either case, a comparison of observed with projected rates would give some indication of the impact of marked deviations from the assumed conditions on the economic behavior of various groups in the population. The estimates relate to the April level for each year.

Under the assumption of a prosperous peacetime economy, the Nation's labor force would be expected to expand to approximately 72 million by 1960, as compared with 64 million in 1950 and an estimated 41 million in 1920. (The actual number in April 1953 was 66.3 million.) These figures imply an average annual increment of 800,000, or 1.2 percent, during the present decade, a rate of growth somewhat under that for the past three decades. As the large crop of babies from World War II and the early postwar period attains working age, an annual increment of 1.2 million, or 1.6 percent, would be anticipated during the 1960's.

The projected expansion in the labor force between 1950 and 1960 reflects largely the growth in the population of working age rather than changes in the rate of labor force participation. In fact, the expected overall labor force participation rate for the population 14 years old and over in 1960 (56.9 percent) would be practically the same as that in 1950.

On the one hand, it is anticipated that the historic advance in labor force participation among women will continue, although at a somewhat decelerated pace, during the present decade. From an estimated 31.3 percent in 1950, the projections indicate an increase in the female labor force participation rate to 33.8 percent 10 years hence, with substantial gains expected for all age groups except the very youngest (those 14 to 19 years old).

On the other hand, some further decline would be anticipated in male labor force participation during the next several years. The rate for men, estimated at 83.3 percent in 1950, is expected to drop slightly to 81.1 percent by 1960. Virtually all of this reduction would be expected to occur among school and college-age youths and among men 65 years old and over. With a further extension anticipated in the average period of formal education, the rate for teen-age boys is expected to drop from 48.9 percent to 46.7 percent during this period. For different reasons, the rate of labor force participation of men 65 years old and

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over is expected to drop from 44.7 percent to 41.2 percent between 1950 and 1960. Part of the drop predicted for older men will reflect residence changes, such as the continued migration from farms to urban centers, and the reduction in mortality rates, whereby an increasing part of the population will consist of septuagenarians and octogenarians. Moreover, with the further development of comprehensive public and private pension plans, some continuation of the trend toward earlier retirement is expected. For men between the ages of 25 and 64, the group which has traditionally represented the core of the full-time labor force, the stability in rates observed over the past several decades is expected to continue in the future.

These trends in labor force participation rates, along with the changing age-sex structure of the population, would have a noticeable effect on the composition of the labor force during this decade. Women, both because of their expanding labor force participation and because they will continue to outnumber men in the population, will occupy an increasingly important role in the economic life of the Nation as time passes. In 1920, women represented only 21 percent of all workers. By 1950, this proportion had advanced to 28 percent and is expected to rise to 30 percent by 1960. A particularly large increase is anticipated among women in the middle and older age groups (45 years old and over). These women constituted only 4 percent of all workers in 1920 and 8½ percent in 1950, but this proportion is expected to rise to 10½ percent by 1960. On the other hand, men 45 years old and over will probably represent about the same proportion of the labor force in 1960 as at present, in spite of the aging of the population. With these changes, the median age of male and female workers will be only a year apart by 1960 (39½ years and 38½ years, respectively). In 1950 and 1920, the median age of male workers exceeded that of female workers by 2 years and 7 years, respectively.

V. CENSUS BUREAU CONCEPTS OF THE LABOR FORCE AND UNEMPLOYMENT

The concepts of the labor force and unemployment used in the Census Bureau's Current Population Survey were developed in the latter part of the thirties, chiefly in the interest of deriving a more objective measurement of unemployment at a time when large numbers were out of work.

Earlier attempts to measure the labor force centered largely about the so-called "gainful worker" concept used in the decennial censuses of 1930 and earlier. According to this concept, a gainful worker was one for whom a gainful occupation was reported. No specific time reference was applied, and many persons who had retired from active participation in the labor market were undoubtedly reported as gainful workers. On the other hand, many young persons who were entering the labor market for the first time were excluded from this group because they had not yet acquired a gainful occupation. Estimates of unemployment were usually derived by subtracting from this gainful-worker figure (or projections of the total for years between the decennial censuses), an employment total built up from various sources, some of which provided only fragmentary data. These derived estimates of unemployment were thus subject to error on at least two counts, the failure of the gainful-worker total to reflect accurately the size of the actual labor force (i. e., economically active population) and the absence of reliable estimate of the total number employed.

With the development of mass unemployment in the early thirties, there was need for a better measurement of the number of jobless persons. Without an objective measurement available, widely conflicting estimates began to make their appearance, and some of them were criticized as reflecting largely the particular interest of the sponsoring group. As a consequence, many research groups, as well as State and municipal governments, began experimenting with direct surveys of the population or samples of the population. In these surveys, an attempt was made to classify the population as in or out of the labor force or as employed or unemployed by means of various series of questions addressed to each individual. Some difficulty was encountered in developing definitions for the various economic groups for which counts were desired. In most of the surveys, the unemployed were defined as those who were not working but were "willing and able" to work. Although representing a marked improvement over past techniques, this concept did not meet the standards of objectivity that many technicians felt were necessary in order to measure not only a level of unemployment at one time but changes over periods of time. The concept "willing and able" to work was believed to be too indefinite and too dependent upon the interpretation and attitude of the person being interviewed. What was needed was some concept which depended upon what a person did rather than upon the way he felt.

Out of this experimentation, there was developed in the latter thirties a set of concepts which sought to meet these various criticisms. According to these concepts, the classification of an individual was to be dependent principally upon his activity, i. e., whether working, or looking for work, or doing something else, within a designated time period. Although there have been improvements in questionnaire design and enumerating techniques, these concepts have been used, in substantially unchanged form, in the Current Population Survey since 1940, and were also incorporated into the censuses of 1940 and 1950.

Although the Census Bureau is responsible for the Current Population Survey, no basic changes in concept would be made without the express approval of various advisory committees composed of technicians both inside and outside the Government. An interagency committee under the sponsorship of the Budget Bureau is constantly reviewing the operation of the survey and the adequacy of the concepts at changing levels of business activity. Also directly concerned are the Labor Advisory Committee to the Budget Bureau, composed of members of the major labor organizations, and the various technical advisory committees to the Census Bureau, consisting of representatives of business, labor, and the Government. Although there have been some differences of opinion concerning conceptual matters, the general consensus of these groups is that the concepts have provided satisfactory measures of the labor force and its fluctuations during periods of war and peace and under conditions both of high and low unemployment.

Explanation of census labor force concepts.—Through its monthly surveys, the Census Bureau classifies the population of working age (14 years of age and over) into three basic groups, the employed, the unemployed, and those not in the labor force. The first two of these, the employed and the unemployed, comprise the civilian labor force, or the economically active population. The total labor force also includes the Armed Forces, but since the number in the Armed Forces is available from official records, the surveys are confined to the civilian population.

As mentioned earlier, the basis for this classification is primarily the activity of the individual during a specified time period, in this case, the calendar week containing the 8th day of each month. In the adoption of a calendar week as the time reference for the surveys, several considerations were paramount. First of all, the period used must be short enough so that the data obtained would be "current" and so that the time reference would not tax the memory of the person giving the information. Secondly, it must not be so short a period of time that the occurrence of holidays or other accidental events would cause wide and erratic fluctuations in the information obtained. A calendar week is not only a convenient and easily defined period of time, but seems best to fulfill the conditions mentioned above.

Whatever the time reference, it is evident that a person would have engaged in more than one activity during the period specified. Thus, in classifying persons, it was necessary to assign a priority to the various activities for which information was obtained. In this way, an individual is classified in only one group, and unduplicated totals of the employed, the unemployed, and persons outside the labor force can be obtained.

In this classification system, the highest priority is assigned to the activity of "working." Thus, if a person did any work in the survey week (that is, any work beside home housework or other work around the house or volunteer work)[6] he is classified as "at work" and is included with the employed, even though he may also have looked for work, gone to school, or done something else

The activity "looking for work" is given second priority in the classification scheme. Thus, if a person did not work at all during the survey week but was looking for work, he is regarded as in the market for a job and is classified as unemployed; those who had made efforts to find jobs within the preceding 60-day period—such as by registering at a public or private employment agency, writing letters of application, canvassing for work, etc.—and who, during the survey week, were awaiting the results of these efforts are also regarded as looking for work. In further defining the unemployed, a slight departure was made from a

[6] In addition, a person who worked without pay on a family farm or business only is not counted as working unless he worked 15 hours or more during the survey week; any smaller amount of work of this kind is regarded as incidental chores.

strict "activity" concept. It was recognized, that, under certain circumstances, some persons, although unemployed in any realistic sense, might not be looking for work continuously. For example, in a one-industry town, if all the plants are shut down, most workers (unless they left town), would have no alternative but to wait until the plants reopen and probably would not be actively looking for work; however, it would be difficult to justify not classifying these workers as unemployed. Thus, the definition of unemployed persons was expanded to include certain groups frequently termed the "inactive unemployed." These are persons who, although not actively looking for work in the specified week, reported that they would have been doing so except for (1) their own temporary illness, (2) their belief that no work was available in their line of work or in the community, or (3) because they were awaiting recall to jobs from which they were on indefinite layoff.

Some modification of the "activity" concept was made also in the case of the employed. It was recognized that, if activity alone during a calendar week is considered, large numbers of persons with definite job attachments but temporarily absent from work in the survey week for reasons such as illness, vacation, or bad weather, would be excluded from the labor force count. Because, in most cases, their absence would not exceed a week or two, it was believed that their exclusion from the labor force would not provide a realistic count of the economically active population. Moreover, unless looking for other jobs, it was decided that they most logically belonged with the employed because they had jobs reserved for them in the economy. Thus persons who were neither working nor looking for work but who had jobs or businesses from which they were temporarily absent during the survey week were set up as a subcategory of the employed, which must be combined with the "at work" group to provide figures for total employment.

Civilians 14 years old and over who were neither employed nor unemployed in accordance with the concepts outlined above are classified as "not in the labor force." These persons are further subdivided in accordance with their principal activity during the survey week, i. e., keeping house, going to school, etc.

Generally, this classification scheme has found widespread acceptance among persons concerned with labor market developments and is regarded as the most suitable for the wide variety of uses to which labor force data are applied. However, for certain purposes, various other regroupings may be preferable. For this reason, the Census Bureau publishes figures in as great detail as is warranted by their statistical validity, and, in addition, conducts periodic special studies on various aspects of the labor force that are not adequately covered by the regular monthly surveys. Some of the limitations and criticisms of the Census Bureau concepts and estimates and the efforts of the Bureau to meet them are described below.

Age limitation.—In the Current Population Survey, information on employment and unemployment is requested only for persons 14 years of age and over. In some of the earlier censuses, when the "gainful worker" concept was used, the lower age limit was 10 years. However, because of the extension and more rigid enforcement of child labor and school attendance laws, it is believed that the 14-year limit is more realistic at the present time.

Actually, there remain a certain number of children under 14, mostly on family farms, who do considerable amounts of gainful work. Thus, to some degree, the agricultural employment figures, especially at the seasonal peak, may not represent the total number who have contributed to farm output. However, the considerable expense involved in obtaining labor force information for younger children would probably not be warranted by the limited additional data that would be provided thereby.

There is a feeling in some quarters that even 14- to 17-year-old children, because of the marginal nature of their economic activity, should be excluded from the labor force count. The inclusion among the unemployed of young persons looking for part-time or summer jobs has been particularly called to question. However, these youngsters do make a substantial contribution to the total national product, and their exclusion from the labor force would seem unwarranted from a labor-input standpoint. The Census Bureau publishes detailed labor force figures by age and sex so that fluctuations due to the seasonal activities of youngsters can be analyzed separately or removed, if so desired.

Treatment of persons with jobs but not at work.—The inclusion with the employed of persons who had jobs or businesses from which they were temporarily absent during the survey week has been the subject of much discussion among technicians in the field. There is little controversy concerning the classification as employed of the largest part of this group, persons away from their jobs because of illness, vacation, or industrial dispute (who were not looking for other jobs). From time to time questions have been raised about including with the unemployed rather than the employed, persons unable to work at their jobs because of bad weather. However, the majority of these persons are farm workers and most of the remainder are construction workers who normally lose a certain amount of working time each year as a result of weather conditions. In fact, for the construction workers at least, wage rates may reflect this factor. At present, there is fairly general agreement with the classification as employed of persons temporarily idle because of bad weather.

Most of the disagreement at present concerns the classification of two very small components of the "with a job" group. These are persons who are not at work because they are on temporary (less than 30-day layoff) layoff,[7] or because they were waiting to report to new jobs which were scheduled to begin within 30 days. Because these persons have less definite job attachments than others in the "with a job" group and because their absence is usually involuntary, many technicians believe they are more properly included with the unemployed. On the other side of the argument, these persons have jobs presumably reserved for them and since they are not looking for other work, are not competing for jobs in the labor market; thus, their status is different from persons who are totally jobless. The "new job" group, in particular, is extremely small except at the end of the school term in June. At that time it expands because of the inclusion of many students who have been promised summer or post-graduation jobs; since most of these students are still in school while waiting to report to work, it is rather questionable whether they could, in any sense, be regarded as unemployed.

At any rate, separate estimates of the temporary layoff and "new job" groups (as well as the other "with a job" categories) are published each month by the Census Bureau, and those who prefer to classify them otherwise are thus able to adjust the figures. On the average, 2 groups combined include only about 200,000 to 300,000 persons.

Treatment of part-time workers.—The classification as employed of persons working only a few hours each week has also been the subject of much controversy. It has been contended by some that when the hours of paid work fall below a certain level (less than 15 hours, for example), these persons are more properly classified as partially unemployed.

The Census Bureau publishes each month detailed information on hours worked for those employed in agriculture and in nonagricultural industries, so that the extent of part-time employment can readily be observed. Moreover, special studies of part-time workers are made periodically in order to determine how many are working short hours because of economic factors and how many are doing so from choice or for personal and other noneconomic reasons. The most recent of these studies show that although substantial cutbacks in hours worked due to economic factors have occurred in the past year, the large majority of those working less than 15 hours a week are doing so because they are housewives, students, or older semiretired persons who want, or are available only for, part-time employment.

It is believed that the maintenance of separate series of estimates of part-time employment and of total unemployment will best serve the interests of public officials and others engaged in labor-market study. Those who, for some purposes, wish to make certain combinations are thus provided with the necessary information. On the other hand, the majority of users who regard the totally unemployed as a separate problem from those who are partially or inadequately employed are not confronted with a global figure which includes both groups.

The measurement of inadequate employment, of course, must take into account many factors besides hours of work. Many persons, for example, who regularly work full time but whose incomes are below a subsistence level are, in a sense, inadequately employed. For this and other reasons, income studies are conducted annually in conjunction with the Current Population Survey in order to provide users with information in this important field.

Treatment of intermittent and marginal workers.—The activity concept is put to its severest test in the measurement of persons who work or look for work

[7] This group includes persons who had been laid off but had definite instructions to return to work within 30 days from the start of their layoff. Persons on layoff who have no definite date to return to work, irrespective of the expected duration of the layoff, are classified as unemployed.

only intermittently. Through improved interviewing techniques and questionnaire design, it is believed that a relatively complete count is now being obtained of all persons at work, including intermittent and marginal workers. Some criticism of the concepts is leveled at the inclusion of secondary and marginal workers such as paid babysitters and newsboys, or unpaid workers on family farms and businesses in the count of the employed. However, since these persons are doing productive work in the economy, it is debatable as to whether they could logically be excluded. Actually, as noted earlier, persons doing unpaid-family work are not counted as employed unless they worked 15 hours or more during the survey week; a smaller amount of work of this kind is regarded as incidental chores. Separate estimates published by age and sex for unpaid workers serve to assist in isolating these groups if desired.

When not actually at work or looking for work, persons who work only occasionally are in danger of being excluded from the labor force count. In large part, those likely to be excluded are the marginal and intermittent workers who are mainly occupied at home keeping house or are attending school. However, some regular workers who want and need jobs but who are not continuously looking for work may also be inadvertently omitted.

The series of questions used to develop labor force information each month are of necessity simple and concise. In order to develop the identity of all persons on the margin of the labor force, much more detailed questioning is required. However, experience has shown that the use of a lengthy series of probing questions will bring into the labor force count large numbers of persons who, although willing and able to work, have no definite intentions of translating their desires into concrete efforts to find jobs. Thus, in order to preserve the objectivity of the classification scheme, it has been deemed preferable to risk the omission of a limited number of workers on the fringe of the labor force rather than to bring in a considerable number of additional workers whose attachment to the labor force cannot be accurately measured and the inclusion of whom might lead to erratic fluctuations in the labor force total.

As an illustration of the effect of intensive questioning, a special survey was conducted in August 1946 for the purpose of reexamining the classification of those reported as outside the labor force in response to the regular questions. Information was obtained on previous working experience, efforts to find work within the previous year, reason not currently in the labor market, and future job-seeking intentions. On the basis of the reasons given for not currently seeking work, a large number of persons (amounting to about 1½ million after inflation of the sample) gave evidence of varying degrees of interest in jobs. However, a further examination showed that the great majority of these persons had neither worked nor looked for work within the past several months and had no definite intentions of seeking work in the near future. These facts suggest that desire and availability for work which may be reported after detailed questioning are not, in themselves, sufficient indication of attachment to the labor force.

Many other experimental studies have been conducted by the Census Bureau (especially during the period 1947–50) for the purpose of determining whether any substantial number of persons who are properly members of the labor force are being excluded by present procedures. The usual approach in these studies has been to determine how many of those reported as outside the labor force in response to the regular questions, have actually looked for work within the past month or two, and, if so, whether they still wanted and were available for jobs. In general, in the neighborhood of half a million persons have been found who fulfilled these conditions, and the number showed relatively little change between a period of relatively low joblessness (such as 1947 and 1948) and a period during which unemployment and partial employment were rising sharply (such as 1949). Moreover, the large majority of these persons in all the studies made were found to be either teen-age students or housewives, groups whose attachment to the labor force is often transitory and unstable.

Information on intermittent workers is also obtained as part of annual studies of the number who worked at any time during the preceding year (along with the length of time worked) as opposed to those in the labor force in a calendar week. From these studies, additional information on the number and characteristics of persons who worked only part time or for short periods of time during the year are provided for analytical purposes.

Limitations of the unemployment figures.—There is today perhaps a more widespread public awareness and discussion of economic matters than at any previous time in our history. Because of the experience of the thirties, the unemployment figures, in particular, have received a great deal of attention and there has been some tendency to evaluate the economic situation in the light of these figures, perhaps to the exclusion of other and equally pertinent data.

The unemployment figures, as derived from Census concepts, have a definite contribution to make in any analysis of economic trends and conditions. They serve primarily as a quick, sensitive, and objective measurement of changes in the number of persons who are jobless and who are competing in the labor market for work. Perhaps their greatest value here is in providing a danger signal of declining job opportunities and in pointing up the need for a more critical analysis of economic conditions. However, there is some danger in ascribing to the unemployment figures a greater diagnostic power than is inherent in their makeup. As mentioned earlier, they do not, taken alone, measure such factors as reductions in hours worked or withdrawals or abstention from the labor force of intermittent workers because of reduced job opportunities. Even if a global figure were presented which attempted to take account of all these factors, its interpretation would be significant only in the light of the size of the labor force and trends in employment, production, and prices.

In shaping policy decisions on employment matters, reliance cannot safely be placed solely on a measurement of unemployment, irrespective of its scope. The concept of unemployment used by the Census Bureau fails to meet all possible objectives, but has the advantage of clarity and objectivity. Information on other phases of inadequate job opportunities, such as part-time work, and intermittent work, and withdrawals from the labor force, is provided separately as a corollary to the basic series. Thus, public officials and others concerned with evaluating employment conditions are provided when the necessary tools with which to conduct their analysis. The Census Bureau considers its proper role in this field to be the collection and publication of these basic data with such description and qualification as are needed for an understanding of the figures. In this role, the publication of as much detail as possible and the maintenance of simple and objective standards are deemed to be in the public interest.

VI. SOURCE AND RELIABILITY OF DATA

Sample design

The labor forces estimates presented in this statement were based on interviews with a scientifically-selected sample of approximatley 25,000 households in 68 sample areas (each consisting of one or more contiguous counties) located in 42 States and the District of Columbia. According to present plans, a revised sample design containing 230 sample areas, but retaining the present overall sample size (25,000 households), will probably be introduced starting in March 1954. The revised sample will provide estimates of greater reliability for most important economic and population characteristics: for example, it may more accurately reflect "pockets" of unemployment, which are unevenly distributed around the country, or items such as agricultural employment, which fluctuate rapidly but not uniformly in different sections. It may also provide a certain amount of geographic detail—at least for the four major regions of the country—not previously available in the monthly survey.

Following is a brief description of the methods used in selecting the present (68-area) sample. Aside from the number of "strata" and sample areas involved, and the fact that more up-to-date geographic and other sampling materials are available, the same general principles are followed for establishing the revised (230-area) design.

1. *Selection of the sample areas.*—The 3,099 counties of the United States were combined into 2,000 primary sampling units, each of which was defined to be as heterogeneous as possible. A typical primary unit, for example, included both urban and rural residents of both high and low economic levels, and provided a broad representation of occupations and industries. Yet, it was sufficiently small in geographic area so that it could be efficiently surveyed without undue travel cost.

These 2,000 primary sampling units were then classified into 68 strata, in such a manner that the units within any one class were as much alike as possible. The most important factors in making these groupings were: the degree of urbanization, geographic location, extent of wartime migration, proportion of the labor force engaged in manufacturing, and the type of farming. In some cases, stratification by type of manufacturing and by color was also used.

Each of the 12 largest metropolitan areas and the District of Columbia was established as a separate stratum and was included as one of the 68 sample areas.

In each of the remaining strata, one primary sampling unit was selected in a random manner for inclusion in the sample, the selection having been made in such a manner that the probability of the selection of any one unit was proportionate to its population. For example, within a stratum, the chance that a primary sampling unit with a population of 50,000 would be selected was twice that for a unit with a population of 25,000. This procedure provides a better representation of the larger units in the sample than does the selection of units with equal probability (i. e., without regard to size). The selection of a primary unit with probability proportionate to size reduces the sampling variation of the statistics since, in effect, it gives each primary sampling unit a likelihood of selection equal to its influence on the statistics.

2. *Selection of sample households.*—In determining the approximate number of households to be interviewed in all sample areas, the objective was to obtain a sample that would be of minimum size and yet provide relatively reliable national estimates of the principal labor-force statistics.

For each stratum an overall sampling ratio of 1 in about 2,200 is used. This gives about 25,000 households and units in special dwelling places (such as hotels, institutions, etc.) for the Nation as a whole. The sampling ratio used in each particular sample area depends on the proportion that the sample area population was of the stratum population. Thus, in a sample area which was one-tenth of the stratum, the sampling ratio is 1 in 220, which results in a ratio of 1 in about 2,200 for the stratum.

In each area the precise number of households to be interviewed each month is calculated by the application of this sampling ratio rather than through the assignment of a fixed quota. This procedure makes it possible for the sample to reflect any shifts in population. For example, if, on the basis of the last census, a sampling ratio of 1 dwelling unit in every 220 is used in a sample area, the number of households in the sample will be larger than that obtained by a fixed quota in areas where the number of households has increased since the census. In areas where the number of households has declined, the number of sample households will be smaller. In this way, the sample property reflects the changing distribution of the population during a period of migration, and avoids the distortion which would result from the application of fixed quotas of households or persons based on the population at an earlier date.

In selecting households for inclusion in the sample, an approximate indication was obtained of the number of dwelling units in small geographic areas (blocks, parts of blocks, or similar areas) within each sample area. For the larger urban places information regarding number and location of dwelling units is obtained from large-scale maps which show the general outline of each residential structure. These maps are used for almost every urban place of 25,000 inhabitants or more, as well as for a number of the smaller places. Where such maps are not used, the number of dwelling units in small geographic areas bounded by roads, streams, etc., was determined by field count or by counting from aerial photographs or county highway maps. Thus, each sample area was divided into small geographic areas with well defined boundaries, and for each of which there is a rough indication of the number of dwelling units.

Within each sample area, a designated proportion of the small geographic areas was selected for inclusion in the sample. A list of all dwelling units within each of the selected geographic areas was prepared and clusters containing an average of six contiguous dwelling units were selected for enumeration. In densely populated and urban areas, for which large-scale maps showing the location of each residential structure are available, small areas containing about six dwelling units were delineated and selected directly, without the necessity of making a list of dwelling units.

In each area the listings of dwelling units in sample segments are brought up to date at frequent intervals, so that each new sample of dwelling units will reflect any new construction or demolition of existing structures.

In August 1949, the coverage of the sample was extended to the residents of certain types of special dwelling places (such as hotels, trailer camps, migratory worker camps, etc.) and to staff members of hospitals and institutions who previously had ben enumerated only occasionally because of the relatively large cost involved. This change was made because residents of special dwelling places have somewhat different personal and economic characteristics from the population as a whole and their exclusion from the sample coverage introduced some bias in the survey results.

3. *Sampling variation.*—Since the estimates derived from the Current Population Survey are based on a sample, they are subject to sampling variability. In general, smaller figures and small differences between figures are subject to

relatively large sampling variation and should be interpreted with caution. Because mathematical principles are applied in selecting the sample, it is possible to compute with some precision the extent to which the estimates may deviate from a complete census (conducted with the same schedules, instructors, and enumerators) as a result of sampling variability, and estimates of possible sampling variability, are included in the published results for the guidance of the consumers of the data.

Survey techniques

Each month, during the calendar week containing the 15th day, trained enumerators interview some responsible person in each of the 25,000 households in the Current Population Survey. Each such household is generally interviewed for a period of 4 consecutive months one year and then for the same period of 4 months the following year. Under this system, roughly 75 percent of the sample households are common from month to month and roughly 50 percent from year to year. This procedure minimizes discontinuities in the series of data that might occur by rotating the entire panel at one time. Moreover, no one household is burdened by an unduly long period of inquiry.

At the time of first interview of a household, the enumerator prepares a roster of the household members, including their personal characteristics (age, sex, race, marital status, and veteran status) and their relationship to the household head. This roster is brought up to date at each subsequent interview to take account of new or departed residents, changes in marital status, aging of household members, and similar items. The information on personal characteristics is then available each month for identification purposes and for cross-classification with the economic characteristics of the sample population.

At each monthly interview, the enumerator asks a series of standardized questions on economic activity during the preceding week (the calendar week containing the 8th day of the month, called the "survey week") for each household member 14 years of age and over. The primary purpose of these questions is to classify the sample population into three basic economic groups—the employed, the unemployed, and those not in the labor force.

Additional questions are asked each month to supplement the basic data. For the employed, information is obtained on hours worked during the survey week, a description of the current job, and, for those temporarily away from their jobs, the reason for not working during the survey week. For the unemployed, information is obtained on the length of time they have been looking for work and a description of their last job. For those outside the labor force, their principal activity during the survey week—whether keeping house, going to school, or doing something else—is recorded.

Aside from sampling variability, the enumeration process may introduce certain errors into the results, which cannot be measured with any precision. The enumerators on the Current Population Survey are chiefly part-time workers. They are better trained than most field survey workers, having had repeated experience on this survey and having received a period of training each month prior to the survey. However, they still may not always ask the questions in the prescribed fashion, particularly if the respondent is uncooperative. To the extent that varying the wording of the questions results in differences in response, this factor may result in some errors or lack of uniformity in the statistics.

Similarly, the data are limited by the adequacy of the information possessed by the respondent. The respondent may not know all the facts about family members or may be unable to report adequately on their attitudes or intentions. For example, a housewife will probably know that her husband is looking for work but she may not always know exactly how long he has been unemployed or what he did on his last job.

The fact that this is a recurrent survey, operating under a tight-time schedule, restricts the kinds of questions that may be asked. Many types of useful information, such as need for work, future job-seeking intentions, and reasons for present status, might be obtained from a one-time survey but are not feasible on a recurrent survey. Considerations of cost both in time and money and of public relations are among the factors which preclude the use of depth interviewing on a monthly basis.

Finally, the use of a fairly short period of reference (1 week each month) imposes certain limitations on the interpretation of the data, particularly in trend analysis. While the effects of random factors, such as adverse weather conditions, strikes, holidays, war situations, etc., are less marked in a 1-week period than they would be if the time reference were shorter, say 1 day, they may nevertheless significantly influence the figures when they occur during the survey week. For example, unfavorable weather in some parts of the country may result in an apparent decline in farm employment in a given week as compared with the same period of the preceding year, although no significant economic change has actually taken place. Workers on strike may report themselves as looking for other employment, thereby increasing the unemployed total, although they will return to their old jobs when the dispute is settled. A legal holiday during the survey week is not likely to affect employment levels, but reported hours of work will decline. Such factors must, consequently, be taken into account in any interpretation and evaluation of the published figures.

Estimating procedure

The schedules (questionnaire forms) containing the information obtained for each sample household are received in the Washington office by the week after enumeration. Allowance is made for occupied households for which no interview could be obtained—because of temporary absence, impassable roads due to floods, blizzards, etc., and various other reasons—by proportionally increasing the weights for interviewed households of similar race and residence characteristics in the same sample area.

After editing and coding, the raw data are transferred to punch cards with a separate card for each person enumerated. Estimates could be prepared by tabulating these cards with a fixed weight (reciprocal of the sampling ratio—approximately 2,200 at present). However, since any sample will tend to vary somewhat in its distribution of basic population characteristics from that existing in the universe, the accuracy of the labor force statistics derived from the sample is increased by an adjustment of the sample distribution to bring it more closely into agreement with that for the population as a whole. The estimating procedure designed to accomplish this adjustment comprises two steps:

1. *Ratio estimate.*—The first step adjusts for differences in the distribution by color and by residence (urban, rural-farm and rural-nonfarm). Independently derived distributions for the various residence-color groups are not available on a current basis for the United States. However, a comparison between the 68 sample areas combined and the country as a whole was made from census data to obtain adjustment ratios for the residence-color groups. These ratios are applied to the current sample returns, increasing the weight slightly in tabulating for certain residence-color groups and reducing the weight slightly for others. This procedure takes advantage of the correlation which exists between the labor force composition of the primary sampling units currently and their color-residence composition at the time of the census.

2. *Age-sex adjustment.*—The second step involves a similar adjustment to take account of differences in the sample distribution by age, sex, and color, for which independent current estimates are available for the entire population. After completion of the ratio estimate, the sample returns by age, sex, and color are brought into agreement with the indpendent population estimates by appropriate weighting of the various age-sex groups. These independent estimates are calculated by adjusting the most recent census data to take account of subsequent aging of the population, deaths, and migration between the United States and other countries.

VII. COMPARABILITY WITH RELATED DATA

Household and establishment employment statistics.—Employment data from the Current Population Survey are obtained by direct household interview and therefore differ in some basic respects from similar series based on reports from business establishments and farms. First, the household approach provides information on the work status of the entire population, without duplication, since each person is classified as employed, unemployed, or not in the labor force. Establishment reports provide a payroll count, and consequently exclude persons who are not on a payroll, such as proprietors, self-employed persons, unpaid family workers, and domestic servants. Persons who worked at more than one job during the survey week, however, will be counted more than once in the establishment series, but will be classified in the job at which they worked the greatest number of hours in the Census Bureau's series.

Second, the Census Bureau data refer to the week containing the 8th of the month, while the payroll reports may refer to a different pay period. Series that are subject to marked seasonal fluctuations may show substantially different levels and changes in the two types of statistics because of the difference in timing of the surveys.

Third, only part of the "with a job but not at work" group, included in the census employment total, appear on payrolls and would be counted in establishment reports. Persons on paid vacation or sick leave are included in both types of series. Workers on strike or temporary lay-off during the survey week, however, are not on payrolls presumably and would therefore not be counted in establishment statistics.

Finally, the various series are all subject to either or both sampling variability and response errors, which may result in differences in both trends and levels.

Household unemployment series and unemployment insurance data.—The unemployment estimates published by the Bureau of the Census are not directly comparable with figures on unemployment compensation claims, although both series tend to show similar general trends. As in the case of employment data, unemployment figures obtained by household interview relate to the population as a whole. In contrast, large groups of workers are not covered by the unemployment insurance laws and are consequently not eligible for compensation. These groups include government workers, domestic servants, farm workers, the self-employed, and, in some States, employees of small enterprises.

Other types of persons who are looking for work are excluded from the claims figures because they are disqualified for benefits for various technical or administrative reasons or because they have exhausted their rights to compensation. Also excluded are new entrants in the labor market, who are definitely seeking work but have not been able to build up adequate wage credits through previous employment to entitle them to compensation.

On the other hand, certain persons who are eligible for unemployment insurance and have filed claims may not report themselves as looking for work. For example, a worker on temporary lay-off with definite instructions to return to his job may be eligible for unemployment compensation but might not be reported to the census enumerator as looking for work. Also, persons only partially unemployed may be eligible for compensation but are excluded from the Census Bureau definition of unemployment.

TABLE 1.—*Summary of employment estimates, January 1954 and January and December 1953*

[Persons 14 years of age and over]

Employment status	January 1954	December 1953	January 1953 [1]
BOTH SEXES			
Total noninstitutional population, 14 years old and over	115,738,000	115,634,000	114,600,000
Total labor force	65,589,000	66,106,000	66,250,000
Civilian labor force	62,137,000	62,614,000	62,700,000
Employed	59,778,000	60,764,000	60,800,000
In agriculture	5,345,000	5,438,000	5,825,000
In nonagricultural industries	54,433,000	55,326,000	54,975,000
Unemployed	2,359,000	1,850,000	1,900,000
Not in labor force	50,149,000	49,528,000	48,350,000
MALE			
Total noninstitutional population, 14 years old and over	56,821,000	56,780,000	56,300,000
Total labor force	46,891,000	47,013,000	47,100,000
Civilian labor force	43,481,000	43,565,000	43,600,000
Employed	41,793,000	42,228,000	42,250,000
In agriculture	4,829,000	4,893,000	5,175,000
In nonagricultural industries	36,964,000	37,335,000	37,075,000
Unemployed	1,688,000	1,337,000	1,350,000
Not in labor force	9,930,000	9,767,000	9,200,000
FEMALE			
Total noninstitutional population, 14 years old and over	58,918,000	58,855,000	58,300,000
Total labor force	18,699,000	19,094,000	19,150,000
Civilian labor force	18,657,000	19,050,000	19,100,000
Employed	17,985,000	18,536,000	18,550,000
In agriculture	516,000	545,000	650,000
In nonagricultural industries	17,469,000	17,991,000	17,900,000
Unemployed	672,000	513,000	550,000
Not in labor force	40,219,000	39,761,000	39,150,000

[1] Revised.

Source: Current Population Survey, Bureau of the Census.

TABLE 2.—*Unemployed persons and unemployment rates,*[1] *by sex, quarterly averages, 1948–53*

[Thousands of persons 14 years and over]

Year	Both sexes	Male	Female	Female as percent of total	Unemployment rates: Both sexes	Male	Female
1948: 1st quarter	2,382	1,743	639	26.8	4.0	4.1	3.8
2d quarter	2,046	1,394	652	31.9	3.3	3.2	3.7
3d quarter	2,023	1,342	681	33.7	3.2	3.0	3.7
4th quarter	1,804	1,243	561	31.1	2.9	2.8	3.1
1949: 1st quarter	3,017	2,287	730	24.2	5.0	5.3	4.3
2d quarter	3,361	2,390	971	28.9	5.4	5.4	5.4
3d quarter	3,711	2,532	1,179	31.8	5.9	5.6	6.4
4th quarter	3,491	2,450	1,041	29.8	5.6	5.6	5.6
1950 1st quarter	4,429	3,230	1,199	27.1	7.2	7.4	6.7
2d quarter	3,318	2,319	999	30.1	5.2	5.2	5.4
3d quarter	2,684	1,757	927	34.5	4.2	3.9	4.9
4th quarter	2,136	1,313	823	38.5	3.4	3.0	4.3
1951: 1st quarter	2,352	1,510	842	35.8	3.8	3.5	4.5
2d quarter	1,777	1,048	729	41.0	2.8	2.4	3.8
3d quarter	1,680	965	715	42.6	2.6	2.2	3.6
4th quarter	1,706	967	739	43.3	2.7	2.2	3.7
1952: 1st quarter	1,981	1,328	653	33.0	3.2	3.1	3.5
January	2,054	1,384	670	32.6	3.3	3.2	3.5
February	2,086	1,376	710	34.0	3.4	3.2	3.7
March	1,804	1,224	580	32.2	2.9	2.9	3.1
2d quarter	1,677	1,053	625	37.3	2.7	2.4	3.2
April	1,612	1,048	564	35.0	2.6	2.4	3.0
May	1,602	972	630	39.3	2.6	2.2	3.2
June	1,818	1,138	680	37.4	2.8	2.6	3.4
3d quarter	1,661	1,037	624	37.6	2.6	2.3	3.2
July	1,942	1,244	698	35.9	3.0	2.8	3.6
August	1,604	1,804	600	37.4	2.5	2.3	3.1
September	1,438	864	574	39.9	2.3	2.0	2.8
4th quarter	1,371	831	540	39.4	2.2	1.9	2.7
October	1,284	714	570	44.4	2.0	1.7	2.9
November	1,418	814	604	42.6	2.2	1.9	3.0
December	1,412	965	447	31.7	2.2	2.2	2.3
1953: First quarter	1,785	1,237	547	30.6	2.8	2.8	2.9
January	1,892	1,360	532	28.1	3.0	3.1	2.8
February	1,788	1,244	544	30.4	2.9	2.8	2.9
March	1,674	1,108	566	33.8	2.7	2.5	2.9
Second quarter	1,483	1,009	475	32.0	2.3	2.3	2.5
April	1,582	1,104	478	30.2	2.5	2.5	2.5
May	1,306	898	408	31.2	2.1	2.0	2.1
June	1,562	1,024	538	34.4	2.4	2.3	2.7
Third quarter	1,345	869	476	35.4	2.1	1.9	2.4
July	1,548	1,024	524	33.9	2.4	2.3	2.7
August	1,240	814	426	34.4	1.9	1.8	2.2
September	1,246	768	478	38.4	2.0	1.7	2.4
Fourth quarter	1,480	1,000	480	32.4	2.3	2.3	2.5
October	1,162	736	425	36.6	1.8	1.7	2.1
November	1,428	927	501	35.1	2.3	2.1	2.6
December	1,850	1,337	513	27.7	3.0	3.1	2.7
1954: January	2,359	1,688	672	28.5	3.8	3.9	3.6

[1] Unemployed as percent of civilian labor force.

Source: Current Population Survey, Bureau of the Census.

TABLE 3.—*Unemployment rates,*[1] *by age, quarterly averages, 1948–53*

Year	Total	Age groups: 14–19	20–24	25–34	35–44	45–54	55–64	65 and over
BOTH SEXES								
1948: 1st quarter	4.0	9.3	7.1	3.4	2.6	2.7	3.3	3.5
2d quarter	3.3	8.7	5.7	2.6	2.2	2.1	2.6	2.4
3d quarter	3.2	7.6	4.8	2.8	2.1	2.3	2.4	2.4
4th quarter	2.9	6.0	4.5	2.6	1.9	2.2	2.8	3.1
1949: 1st quarter	5.0	10.4	8.0	4.3	3.7	3.7	4.6	4.7
2d quarter	5.4	12.8	8.5	4.8	3.7	3.6	4.5	4.7
3d quarter	5.9	11.9	9.7	5.1	4.3	3.8	5.0	4.7
4th quarter	5.6	11.1	8.5	5.3	4.3	4.2	4.7	4.3
1950: 1st quarter	7.2	14.5	11.0	6.6	5.1	5.9	6.7	5.7
2d quarter	5.2	12.2	7.4	4.6	3.6	4.0	4.9	4.3
3d quarter	4.2	9.4	6.2	3.6	2.9	3.2	3.2	3.6
4th quarter	3.4	7.1	4.2	3.0	2.6	2.8	3.3	3.7
1951: 1st quarter	3.8	8.1	4.5	3.5	2.9	2.9	4.0	5.0
2d quarter	2.8	7.8	3.4	2.3	1.9	2.3	2.5	3.0
3d quarter	2.6	6.5	3.2	2.3	1.8	2.2	2.1	1.9
4th quarter	2.7	6.3	3.4	2.4	2.1	2.2	2.5	2.8
1952: 1st quarter	3.2	8.3	4.5	2.8	2.5	2.5	2.9	3.0
2d quarter	2.7	8.3	3.8	2.0	1.8	2.0	2.0	2.8
3d quarter	2.6	7.0	4.0	2.2	1.9	1.7	1.9	2.4
4th quarter	2.2	6.0	3.5	1.9	1.6	1.5	1.8	1.8
October	2.0	5.7	3.6	1.7	1.6	1.3	1.5	1.8
November	2.2	6.1	3.1	2.1	1.7	1.6	1.8	1.5
December	2.2	6.2	3.8	1.9	1.5	1.7	2.0	2.1
1953: 1st quarter	2.8	6.4	4.2	2.4	2.1	2.4	2.9	2.8
January	3.0	6.6	4.1	2.8	2.3	2.6	2.9	3.0
February	2.9	6.9	4.1	2.5	1.8	2.5	3.1	2.5
March	2.7	5.8	4.4	1.9	2.3	2.0	2.8	2.8
2d quarter	2.3	6.8	3.5	2.0	1.6	1.8	1.9	1.6
April	2.5	5.5	4.2	2.2	2.0	1.9	2.3	2.3
May	2.1	5.6	2.8	2.0	1.5	1.7	1.8	1.1
June	2.4	8.7	3.6	1.8	1.4	1.6	1.5	1.3
Third quarter	2.1	5.3	3.4	1.7	1.5	1.4	2.0	1.3
July	2.4	6.6	3.2	1.9	1.8	1.5	2.4	1.5
August	1.9	4.7	3.5	1.6	1.4	1.2	1.9	1.1
September	2.0	4.6	3.5	1.7	1.4	1.6	2.0	1.3
Fourth quarter	2.3	5.9	4.1	2.1	1.8	1.8	2.0	1.7
October	1.8	5.6	2.7	1.6	1.4	1.4	1.3	1.3
November	2.3	5.3	3.9	2.0	1.7	1.7	2.2	1.5
December	3.0	7.0	5.8	2.6	2.2	2.3	2.3	2.3
1954: January	3.8	6.7	7.1	3.4	3.1	3.6	2.9	3.1

[1] Unemployed as percent of civilian labor force.

Source: Current Population Survey, Bureau of the Census.

TABLE 5.—*Unemployment rates*[1] *for nonagricultural wage and salary workers, by major industry group, January 1949, 1952, 1953, and 1954*

	January 1949	January 1952	January 1953	January 1954
Total nonagricultural wage and salary workers[2]	5.1	3.6	3.2	4.2
Construction	14.6	10.0	9.1	11.4
Manufacturing	4.9	3.7	3.1	4.3
Durable goods	5.0	2.8	2.7	4.2
Nondurable goods	4.9	4.9	3.5	4.6
Transportation, communication, and other public utilities	3.1	2.4	2.8	3.7
Trade	4.7	3.5	3.0	4.0
Service	3.8	2.5	2.3	2.4
Public administration	2.9	1.7	1.7	2.3

[1] Unemployment rate is proportion of all wage and salary workers who were unemployed. For employed the industry is that of the current job; for the unemployed, that of the last full-time job.
[2] Includes mining; excludes forestry and fisheries.

Source: Current Population Survey, Bureau of the Census.

TABLE 6.—*Total labor force, including Armed Forces, by age and sex, annual averages, 1940 and 1944–53*

[Thousands of persons 14 years and over]

Sex and year	Total, 14 years and over	14 to 19 years	20 to 24 years	25 to 34 years	35 to 44 years	45 to 54 years	55 to 64 years	65 years and over
BOTH SEXES								
1940	56,030	4,941	8,339	13,990	11,540	9,310	5,630	2,280
1944	65,896	7,829	9,225	14,782	13,531	10,887	6,718	2,923
1945	65,152	7,227	9,004	14,774	13,410	10,889	6,890	2,956
1946	60,832	5,839	7,691	14,305	12,787	10,614	6,807	2,791
1947	61,608	5,684	7,767	14,308	13,257	10,602	7,169	2,821
1948	62,749	5,634	7,786	14,658	13,505	10,938	7,332	2,899
1949	63,571	5,510	7,808	14,852	13,831	11,133	7,430	3,010
1950	64,599	5,403	7,853	15,105	14,096	11,470	7,636	3,037
1951	65,832	5,470	7,885	15,534	14,341	11,780	7,802	3,020
1952	66,410	5,375	7,690	15,741	14,612	12,001	7,986	3,005
1953:								
Comparable with 1952 [1]	66,501	5,287	7,584	15,524	14,785	12,171	8,112	3,044
Published	66,965	5,247	7,538	15,594	15,180	12,215	8,013	3,178
MALE								
1940	41,870	3,245	5,435	10,185	8,900	7,485	4,673	1,947
1944	46,517	4,929	5,886	10,515	9,474	8,018	5,267	2,429
1945	45,874	4,506	5,707	10,446	9,391	8,025	5,334	2,463
1946	43,976	3,681	4,877	10,539	9,141	7,985	5,408	2,336
1947	44,692	3,617	5,042	10,558	9,581	7,872	5,647	2,376
1948	45,150	3,551	5,065	10,718	9,701	7,965	5,767	2,385
1949	45,523	3,456	5,146	10,846	9,838	8,033	5,752	2,454
1950	45,919	3,421	5,172	11,004	9,930	8,142	5,797	2,453
1951	46,524	3,453	5,215	11,229	10,034	8,244	5,879	2,469
1952	46,851	3,373	5,171	11,406	10,167	8,364	5,954	2,415
1953:								
Comparable with 1952 [1]	47,090	3,359	5,149	11,408	10,275	8,483	6,010	2,405
Published	47,555	3,324	5,104	11,468	10,605	8,573	5,965	2,515
FEMALE								
1940	14,160	1,696	2,904	3,805	2,640	1,825	957	333
1944	19,378	2,901	3,339	4,268	4,057	2,869	1,451	493
1945	19,277	2,721	3,297	4,328	4,019	2,864	1,556	492
1946	16,856	2,158	2,814	3,766	3,645	2,629	1,398	445
1947	16,916	2,067	2,725	3,750	3,676	2,730	1,522	445
1948	17,599	2,083	2,721	3,940	3,804	2,973	1,565	514
1949	18,048	2,054	2,662	4,006	3,993	3,100	1,678	556
1950	18,680	1,982	2,681	4,101	4,166	3,328	1,839	584
1951	19,309	2,018	2,670	4,305	4,307	3,535	1,923	551
1952	19,558	2,002	2,519	4,335	4,444	3,637	2,032	590
1953:								
Comparable with 1952 [1]	19,410	1,922	2,435	4,116	4,510	3,688	2,102	639
Published	19,410	1,922	2,435	4,126	4,575	3,643	2,047	664

[1] Because of changes in estimating procedure introduced in January 1953, published figures for 1953 are not exactly comparable with those for previous years; for this reason, an adjusted set of 1953 figures roughly comparable with 1952 is also presented in this table.

Source: Current Population Survey, Bureau of the Census.

TABLE 7.—*Total labor force participation rates,*[1] *by age and sex, annual averages, 1940 and 1944–53*

Age and sex	1940	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
Both sexes, 14 years and over	55.9	63.1	61.8	57.2	57.3	57.8	58.0	58.3	58.8	58.7	58.2
Male	83.9	89.7	88.0	83.7	84.4	84.6	84.5	84.4	84.8	84.6	84.2
14 to 19 years	44.2	70.0	64.9	53.7	54.2	54.3	53.6	53.2	53.7	51.9	50.6
20 to 24 years	96.1	98.5	95.5	82.3	84.8	85.6	87.7	89.0	91.0	92.0	92.4
25 to 34 years	98.1	99.0	97.0	94.2	95.8	96.0	95.9	96.2	97.1	97.7	97.6
35 to 44 years	98.5	99.0	98.2	97.3	98.0	98.0	98.0	97.6	97.6	97.9	97.9
45 to 54 years	95.5	97.1	96.6	96.1	95.5	95.8	95.6	95.8	96.0	96.2	96.2
55 to 64 years	87.2	92.1	91.4	89.6	89.6	89.5	87.5	87.0	87.2	87.5	87.6
65 years and over	45.0	52.2	52.1	48.5	47.8	46.8	46.9	45.8	44.9	42.6	41.3
Female	28.2	36.8	36.2	31.3	31.0	31.9	32.4	33.1	33.8	33.9	33.2
14 to 19 years	23.3	42.0	40.0	32.3	31.6	32.5	32.5	31.5	32.1	31.5	30.0
20 to 24 years	49.5	55.0	54.1	46.3	44.9	45.3	45.0	46.1	46.6	44.8	44.3
25 to 34 years	35.2	39.0	38.9	32.9	32.0	33.2	33.5	34.0	35.4	35.5	33.7
35 to 44 years	28.8	40.5	39.8	36.2	36.3	36.9	38.1	39.1	39.8	40.5	40.6
45 to 54 years	24.3	35.8	35.2	31.5	32.7	35.0	35.9	38.0	39.7	40.1	39.9
55 to 64 years	18.7	25.4	26.5	23.6	24.3	24.3	25.3	27.0	27.6	28.7	29.0
65 years and over	7.4	9.8	9.6	8.4	8.1	9.1	9.6	9.7	8.9	9.1	9.6

[1] Total labor force as percentage of total noninstitutional population in age group.

Source: Current population survey, Bureau of the Census.

TABLE 8.—*Labor-force status of married women by age and presence of children, 1940, 1944, and 1947–53*

Month and year	Total, married women	Married, husband living in household [1]: Total	Under 35 years	35 to 64 years	65 years and over	Children under 6	Children 6 to 17 years	No children under 18
Number in labor force (in thousands):								
March 1940	5,040	4,200	2,110	2,030	60	(2)	(2)	(2)
April 1944	8,433	6,226	2,187	3,966	73	(2)	(2)	(2)
April 1947	7,545	6,676	2,637	3,964	75	(2)	(2)	(2)
April 1948	8,281	7,553	3,229	4,212	112	1,222	1,929	4,394
April 1949	8,739	7,959	3,267	4,586	106	1,285	2,130	4,544
March 1950	9,273	8,550	3,618	4,799	133	1,399	2,205	4,946
April 1951	10,182	9,086	3,682	5,262	142	1,670	2,400	5,016
April 1952	10,350	9,222	3,592	5,494	136	1,688	2,492	5,042
April 1953	10,699	9,588	3,686	5,762	140	N. A.	N. A.	N. A.
Percent of population in labor force:								
March 1940	16.7	14.7	18.4	13.0	4.1	(2)	(2)	(2)
April 1944	25.6	21.7	21.5	23.6	4.4	(2)	(2)	(2)
April 1947	21.4	20.0	19.7	21.7	4.1	(2)	(2)	(2)
April 1948	23.1	22.0	22.9	23.0	6.1	10.7	26.0	28.4
April 1949	23.6	22.5	22.9	24.1	5.2	11.0	27.3	28.7
March 1950	24.8	23.8	25.0	24.8	6.4	11.9	28.3	30.3
April 1951	26.7	25.2	26.1	26.7	6.5	14 0	30.3	31.0
April 1952	26.8	25.3	25.3	27.4	5.9	13.9	31.1	30.9
April 1953	27.1	25.8	25.9	28.4	5.5	(2)	(2)	(2)

[1] Data on labor force participation of married women by age and presence of children are available only for those living in same households as their husbands; in the postwar period, the large majority fall in this group, but during World War II, of course, a considerable proportion were separated from their husbands because the latter were in the Armed Forces. In making direct comparisons between wartime and postwar data, therefore, the statistics for total married women rather than those for women living with their husbands should be used.

[2] Not available.

Source: Current Population Survey, Bureau of the Census.

TABLE 9.—*Labor-force status by school enrollment, age, and sex, 1940 and 1944–53*

[Persons 14 to 19 years old]

Month and year	Enrolled in school: Both sexes	Male	Female	Not enrolled in cshool: Both sexes	Male	Female
Number in labor force (in thousands):						
April 1940	600	410	190	3,660	2,390	1,270
April 1944	2,722	1,883	839	3,508	1,617	1,891
October 1945	1,442	888	554	3,418	1,512	1,906
October 1946 [1]	1,295	841	454	3,234	1,603	1,631
October 1947 [1]	1,330	865	465	3,325	1,829	1,496
October 1948	1,566	1,023	543	3,390	1,928	1,462
October 1949	1,547	938	608	3,300	1,839	1,461
October 1950	2,069	1,309	758	3,109	1,750	1,359
October 1951	1,966	1,184	782	2,850	1,570	1,280
October 1952	1,726	1,138	588	2,836	1,526	1,310
October 1953	1,631	1,061	570	2,788	1,519	1,269
Labor force rates:						
April 1940	6.6	8.8	4.2	66.1	87.9	45.0
April 1944	34 0	49.5	19.9	79.4	95.5	69 4
October 1945	18.9	24.2	14.0	76.3	90.3	68.0
October 1946 [2]	16.6	21.5	11.7	67.3	78.2	59.2
October 1947 [2]	17.2	21.9	12.3	68.1	83.8	55 3
October 1948	19.7	24.8	14.1	73.8	93.4	57.8
October 1949	19.8	23.2	16.1	72 4	91.3	57.4
October 1950	25.3	30.8	19.2	73.5	92.9	57.9
October 1951	24.0	28.5	19.3	71.3	90.1	56 8
October 1952	20.3	26.0	14.2	72.4	91.2	58.4
October 1953	18.7	23.7	13.5	72.6	92.2	57.9

[1] Includes employed persons only; data on labor force not available in this detail for these 2 dates but number of unemployed workers is relatively small for this age group.

[2] Employed as percent of population.

Source: Current Population Survey, Bureau of the Census.

TABLE 10.—*Total labor force (including Armed Forces), by age and sex, quarterly averages, 1952–53*

[Thousands of persons 14 years old and over]

Age and sex	1952 [1] 1st quarter	1952 2d quarter	1952 3d quarter	1952 4th quarter	1953 1st quarter	1953 2d quarter	1953 3d quarter	1953 4th quarter
Both sexes, 14 and over	65, 448	66, 990	67, 919	67, 151	66, 298	67, 042	67, 874	66, 645
14 to 19 years	4, 700	5, 501	6, 165	4, 989	4, 775	5, 346	6, 098	4, 768
20 to 24 years	7, 668	7, 693	7, 729	7, 484	7, 553	7, 641	7, 623	7, 335
25 to 34 years	15, 676	15, 830	15, 852	15, 895	15, 682	15, 644	15, 476	15, 576
35 to 44 years	14, 767	15, 043	14, 999	15, 243	15, 044	15, 118	15, 106	15, 454
45 to 54 years	11, 956	12, 003	12, 024	12, 194	12, 080	12, 141	12, 258	12, 382
55 to 64 years	7, 702	7, 800	7, 952	8, 067	7, 970	7, 986	8, 057	8, 038
65 years and over	2, 980	3, 120	3, 200	3, 278	3, 195	3, 166	3, 255	3, 097
Male, 14 and over	46, 537	47, 531	48, 124	47, 083	47, 136	47, 695	48, 283	47, 109
14 to 19 years	2, 962	3, 434	3, 884	3, 069	3, 064	3, 404	3, 839	2, 988
20 to 24 years	5, 168	5, 202	5, 186	4, 943	5, 142	5, 150	5, 163	4, 960
25 to 34 years	11, 372	11, 473	11, 512	11, 522	11, 528	11, 478	11, 458	11, 410
35 to 44 years	10, 378	10, 536	10, 530	10, 546	10, 470	10, 604	10, 672	10, 676
45 to 54 years	8, 370	8, 449	8, 494	8, 513	8, 480	8, 546	8, 621	8, 645
55 to 64 years	5, 845	5, 916	5, 941	5, 932	5, 912	5, 973	6, 011	5, 965
65 years and over	2, 443	2, 521	2, 579	2, 559	2, 539	2, 539	2, 518	2, 462
Female, 14 and over	18, 911	19, 459	19, 795	20, 068	19, 162	19, 347	19, 592	19, 536
14 to 19 years	1, 738	2, 067	2, 281	1, 920	1, 710	1, 942	2, 259	1, 777
20 to 24 years	2, 500	2, 491	2, 543	2, 541	2, 411	2, 490	2, 460	2, 375
25 to 34 years	4, 304	4, 357	4, 340	4, 373	4, 154	4, 167	4, 018	4, 163
35 to 44 years	4, 389	4, 507	4, 469	4, 697	4, 574	4, 514	4, 434	4, 778
45 to 54 years	3, 586	3, 554	3, 530	3, 681	3, 600	3, 595	3, 638	3, 737
55 to 64 years	1, 857	1, 884	2, 011	2, 135	2, 058	2, 013	2, 046	2, 072
65 years and over	537	599	621	719	655	627	737	634

[1] Because of changes in estimating procedure introduced in January 1953, published figures for 1952 and 1953 are not exactly comparable; for this reason, the 1952 figures in this table have been adjusted for approximate comparability with 1953.

Source: Current Population Survey, Bureau of the Census.

TABLE 11.—*Total labor-force participation rates,[1] by age and sex, quarterly averages, 1952–53*

[Thousands of persons 14 years old and over]

Age and sex	1952 1st quarter	1952 2d quarter	1952 3d quarter	1952 4th quarter	1953 1st quarter	1953 2d quarter	1953 3d quarter	1953 4th quarter
Both sexes, 14 years and over	57.8	58 9	59 5	58 7	57.9	58.3	58.9	57.7
Male	83.8	85 1	85.9	83.8	83.9	84 5	85.3	83.0
14 to 19 years	46 2	53.6	60.3	47.5	46 8	52.0	58.4	45.2
20 to 24 years	91 8	93 2	93.4	89.6	92 1	93.2	93.9	90.6
25 to 34 years	97 3	97.8	97.9	97.8	98.1	97.7	97.5	97.0
35 to 44 years	98 0	98 1	97.8	97.7	97 8	97.7	98.1	97.9
45 to 54 years	95.9	96.2	96 4	96.3	96.0	96.0	96.5	96.3
55 to 64 years	86.7	87.8	87.9	87.6	87 0	88.0	88.2	87.3
65 years and over	42.1	42.6	43.2	42.5	42 5	41.7	41.0	39.8
Female	32.9	33.7	34.2	34.6	32 9	33.1	33.4	33.2
14 to 19 years	27.5	32.6	35.9	30.1	26.8	30.4	35.2	27.6
20 to 24 years	44.2	44.2	45.4	45.6	43 5	45.2	44.9	43.6
25 to 34 years	35.3	35.6	35.5	35.7	33.9	34.0	32.8	34.0
35 to 44 years	39.7	40.5	40.0	41.7	40.9	40.0	39.2	42.1
45 to 54 years	40.1	39 9	39.4	41.1	39.6	39.5	39.8	40.7
55 to 64 years	26.9	27 5	29.1	31.0	29.2	28.7	29.0	29.2
65 years and over	8 1	8.9	9.1	10.4	9.6	9.1	10.6	9.0

[1] Total labor force as percentage of total noninstitutional population in age group.

Source: Current Population Survey, Bureau of the Census.

TABLE 12.—*Estimates and projections of the total population of the United States, including Armed Forces overseas, by age and sex, as of July 1, for selected years, 1940–60*

[Thousands of persons]

Age and sex	1940	1950	1951	1952	1953	1955	1960
Both sexes, total	131,970	151,677	154,360	156,981	159,689	[1] 164,644	[1] 176,126
Under 14 years	30,534	38,597	40,106	41,584	43,112	[1] 45,875	[1] 49,805
14 to 17 years	9,831	8,446	8,532	8,728	8,878	9,239	11,187
18 to 24 years	16,539	16,014	15,755	15,478	15,321	15,117	16,246
25 to 44 years	39,787	45,495	45,971	46,326	46,617	46,934	46,598
45 to 64 years	26,258	30,760	31,258	31,763	32,295	33,506	36,589
65 years and over	9,021	12,364	12,737	13,101	13,465	13,973	15,701
14 years and over	101,436	113,080	114,254	115,397	116,576	118,769	126,321
18 to 64 years	82,584	92,269	92,984	93,567	94,233	95,557	99,433
Male, total	66,197	75,525	76,827	78,090	79,398	[1] 81,683	[1] 87,076
Under 14 years	15,496	19,650	20,429	21,186	21,970	[1] 23,396	[1] 25,434
14 to 17 years	4,953	4,272	4,321	4,432	4,515	4,696	5,690
18 to 24 years	8,166	7,983	7,885	7,771	7,715	7,604	8,216
25 to 44 years	19,731	22,407	22,626	22,782	22,919	23,049	22,942
45 to 64 years	13,450	15,376	15,573	15,774	15,984	16,469	17,715
65 years and over	4,401	5,837	5,994	6,145	6,295	6,469	7,079
14 years and over	50,701	55,875	56,398	56,904	57,429	58,287	61,642
18 to 64 years	41,347	45,766	46,084	46,327	46,618	47,122	48,873
Female, total	65,773	76,152	77,533	78,891	80,290	[1] 82,961	[1] 89,050
Under 14 years	15,038	18,946	19,677	20,397	21,143	[1] 22,479	[1] 24,371
14 to 17 years	4,878	4,175	4,212	4,298	4,363	4,543	5,479
18 to 24 years	8,373	8,031	7,870	7,707	7,606	7,513	8,030
25 to 44 years	20,056	23,088	23,346	23,543	23,698	23,885	23,656
45 to 64 years	12,808	15,385	15,683	15,990	16,311	17,037	18,874
65 years and over	4,620	6,527	6,743	6,956	7,169	7,504	8,622
14 years and over	50,735	57,206	57,856	58,494	59,147	60,482	64,679
18 to 64 years	41,237	46,504	46,899	47,240	47,615	48,435	50,560

[1] Projections are based on assumption that birthrates will decline somewhat by 1960, but will still be considerably above 1940 levels. Other population estimates published by the Bureau in conjunction with these, but using somewhat different assumptions, are as follows: Under assumption of an indefinite continuation of present birthrates, the estimates for 1955 and 1960 would be 164,782,000 and 177,426,000, respectively. Under assumption of a decline in birthrates by 1960 to roughly the 1940 levels, the corresponding figures would be 164,403,000 and 173,827,000. Under any of these assumptions, the only age group affected would be children under 14 years of age.

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TABLE 13.—*Estimates and projections of the total population of the United States, including Armed Forces overseas, by age and sex, as of July 1, for selected years, 1940–60*

[Per cent distribution]

Age and sex	1940	1950	1951	1952	1953	1955 [1]	1960 [1]
Both sexes, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under 14 years	23.1	25.4	26.0	26.5	27.0	27.9	28.3
14 to 17 years	7.4	5.6	5.5	5.6	5.6	5.6	6.4
18 to 24 years	12.5	10.6	10.2	9.9	9.6	9.2	9.2
25 to 44 years	30.1	30.0	29.8	29.5	29.2	28.5	26.5
45 to 64 years	19.9	20.3	20.3	20.2	20.2	20.4	20.8
65 years and over	6.8	8.2	8.3	8.3	8.4	8.5	8.9
14 years and over	76.9	74.6	74.0	73.5	73.0	72.1	71.7
18 to 64 years	62.6	60.8	60.2	59.6	59.0	58.0	56.5
Male, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under 14 years	23.4	26.0	26.6	27.1	27.7	28.6	29.2
14 to 17 years	7.5	5.7	5.6	5.7	5.7	5.7	6.5
18 to 24 years	12.3	10.6	10.3	10.0	9.7	9.3	9.4
25 to 44 years	29.8	29.7	29.5	29.2	28.9	28.2	26.3
45 to 64 years	20.3	20.4	20.3	20.2	20.1	20.2	20.3
65 years and over	6 6	7.7	7.8	7.9	7.9	7.9	8.1
14 years and over	76.6	74.0	73.4	72.9	72.3	71.4	70.8
18 to 64 years	62.5	60.6	60.0	59.3	58.7	57.7	56.1
Female, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under 14 years	22.9	24.9	25.4	25.9	26.3	27.1	27.4
14 to 17 years	7.4	5.5	5.4	5.4	5.4	5.5	6.2
18 to 24 years	12.7	10.5	10.2	9.8	9.5	9.1	9.0
25 to 44 years	30.5	30.3	30.1	29.8	29.5	28.8	26.6
45 to 64 years	19.5	20.2	20.2	20.3	20.3	20.5	21.2
65 years and over	7.0	8.6	8.7	8.8	8.9	9.0	9.7
14 years and over	77.1	75.1	74.6	74.1	73.7	72.9	72.6
18 to 64 years	62.7	61.1	60.5	59.9	59.3	58.4	56.8

[1] See footnote 1 on table 12.

Source: Bureau of the Census.

TABLE 14.—*Estimates and projections of the average annual number attaining ages 14, 18, and 65, by sex, in selected periods from 1940–60*

[Thousands of persons]

Age and sex	1940–45	1945–50	1950–53	1953–60
Both sexes:				
14 years	2,301	2,122	2,235	2,629
18 years	2,438	2,256	2,099	2,308
65 years [1]	952	1,095	1,122	1,204
Male:				
14 years	1,164	1,074	1,137	1,337
18 years	1,221	1,136	1,059	1,171
65 years [1]	475	538	556	586
Female:				
14 years	1,137	1,048	1,098	1,292
18 years	1,217	1,120	1,040	1,137
65 years [1]	477	557	566	618

[1] The estimates for the average annual number attaining age 65 are especially subject to errors because of the irregularities of age reporting in the censuses at the older ages. Hence, differences between periods and sexes must be interpreted with caution.

Chairman WOLCOTT. Mr. Clague.

STATEMENT OF EWAN CLAGUE, COMMISSIONER OF LABOR STATISTICS

Mr. Clague. Mr. Chairman, I am going to talk about employment. You have a statement from me on recent employment developments in the United States, with tables and charts.

I think I can proceed most speedily by talking extemporaneously to the charts appearing in the statement.

First of all, I would like to make a comparison of our figures with Mr. Eckler's so that you may be aware of the kind of employment I am talking about.

Under the census computations there were 62 million persons, approximately, employed during 1953 on the average. I shall be talking about 49 million.

Now the difference between the 62 and the 49 refers to workers in agriculture, which the Bureau of Labor Statistics does not cover, domestic servants in the home, which we do not cover, and those self-employed in the cities with no employees or small-business establishments using unpaid family labor. Taking those classes out, you come down to the 49 million, who represent employees, and this is comparable to Mr. Eckler's corresponding figures in a very broad and general way.

Now, the 49 million are employees of industry and government in the United States. They include officials, office workers, and production workers.

I might describe briefly our reporting system so that you may understand the kind of figures that we are getting. This is a Federal-State cooperative system.

The Bureau of Labor Statistics, in cooperation with the Bureau of Employment Security, represented by Mr. Goodwin here today, have an arrangement with about 40 State employment security agencies—that is, the Unemployment Insurance Administration agencies—for them to be the cooperating agencies with us in the States. In the remaining States the cooperation is generally with State departments of labor.

This combination means that all States are covered in a Federal-State system.

Our reports are collected by mail. We have a form which is printed by the Bureau of Labor Statistics. Since I am going to report to you shortly on the employment in January 1954, I might just describe how we got those January figures.

Early in January we mailed to the States the forms that go to the employers. The State agency mailed the form to the employer in that State. The employer filled out that form when he received it—this is all voluntary—he mailed it back to the State agency which took off the information which they use for their State and local statistics of employment—hours and earnings; they then shipped the form into Washington, where we took off the information for our national statistics, which I am presenting to you here today.

About this time in February we were mailing that same form back to the States; they will mail it out to the employer; he will fill in the February figures, and so it will come back. The same form is used for 12 months.

The information we collect is rather simple. We ask for the number of employees, that is, in the establishment or plant. We get the total number of man-hours worked by those employees, and from that we can get the average hours worked per week for each man.

We ask the total dollars of payroll paid in a week to those employees, and from that we derive the average weekly earnings, which you have all seen, and the average hourly earnings of each employee.

The sample covers about 150,000 individual establishments, or plants or businesses, not including the Government employment. Employment for the Federal Government is reported to us by the Civil Service Commission, and for the State and local government through the Census Bureau.

The total number of employees reported to us each month is about 23 million. That means we have out of the total of 49 million, an almost 50 percent sample.

In manufacturing we have about 11 million employees reported each month, which means that our sample is nearly 70 percent of all the employment that eixsts in manufacturing.

This is not a census, I want to emphasize to the committee, it is a sample, but it is a very large sample.

With this large coverage, we are able to provide breakdowns for a great many industries. Our present tabulations cover about 400 individual industries.

We have data for the United States as a whole, for all of the 48 States, and for about a hundred local communities.

The States themselves, of course, produce those data for the States and for the local communities, by industry.

This is a simple reporting system by mail, as I indicated. It is speedy, it is economical, and it yields a vast wealth of information, some of which I am now about to give you.

If the committee is willing to do so, and would turn to the charts that are in my statement, I shall take each one up in turn. Each chart has only one or two points in connection with it, so this will not take me very long.

The first chart shows employment in non-agricultural establishments—that is, the 49 million I am talking about, in annual average terms for recent years. (See chart "Employment in Nonagricultural Establishments," p. 256.)

Going back to 1939 for selected years, you will notice that in 1939 we had about 30 million of such persons employed, of whom about 10 million were in manufacturing.

I call your attention now to the wartime peak and then the post-war years; the dip in the recession of 1949, and the growth since.

At the right hand side is the 49 million I have been talking about, the average for the year 1953, and down the bar is the 17 million in manufacturing in 1953.

If you take a given month in each of those years, we can get more dramatically the spectacular climb in employment during the last three years. If we take June 1950, just before Korea, Mr. Chairman, and June 1953, which was pretty close to the peak of last year, the net increase in this non-farm employment total was approximately 5 million.

Now, if you will turn to the next chart, I have shown by months at the top of that chart nonfarm employment for 1953 compared to 1952. (See chart "Nonfarm Employment Dropped Below Year-Ago Levels at the close of 1953," p. 257.)

Senator DOUGLAS. Mr. Clague, you have not carried this into January, yet, 1954?

Mr. CLAGUE. No, but I have January figures; I had to make up the chart, and I just got the figures yesterday.

You will notice that 1953 by months was consistently higher than 1952, until November. At that point it equaled the November figures of last year, and in December it fell below.

At the bottom of that chart you see the decline over the year from December 1952 to December 1953 as shown by the major industry groups.

You will notice that manufacturing at the left had a decline of about a half million over the year. Federal Government employment went down almost a third of a million, transportation and public utilities went down about 60,000; mining down by about the same amount; contract construction down slightly.

On the other hand, you will notice that service industries increased; so did finance, insurance and real estate; so did trade, and State and local government.

I might call your attention to the fact that State and local government almost balanced off the decline in Federal Government employment, so that Government as a whole showed little net change over the year.

Senator DOUGLAS. How much lower was employment in nonagricultural industry in December of 1953 as compared to December of 1952? I see from the chart, but the chart does not translate those December figures.

Mr. CLAGUE. We will have that in just a few minutes. I can tell you indirectly, and we will find the figure when we get to it. If you take all of those figures, except manufacturing, all the other groups, they just about balance out at zero; that is my answer.

Senator DOUGLAS. About 500,000?

Mr. CLAGUE. So the net decline in total nonfarm employment was almost exactly measured by the decline in manufacturing employment, which was about a half million, and that is the significant point I want to make. It is in manufacturing where we have had our net decline during 1953.

The next chart moves on to average weekly hours. (See chart "Average Weekly Hours of Production Workers in Manufacturing Industries," p. 258.) So far we have been talking about people. Now we come to the actual hours of employment expressed, first, as hours per week.

I have there the averages from 1947 to 1953. I do call attention of the committee to the broken bars. I have exaggerated the chart, obviously, just to call attention to the rises and declines. You notice that in 1949 the average fell to about 39 hours per week. In 1950, 1951, and 1952, of course, it was about 40½, 40¾, and then in 1935 it was also about 40½.

At the bottom of that chart, however, I show by months the weekly hours, 1952 compared to 1953, and I think, for the committee, the significant point is that in the first half of 1953 the hours of work per week were above those of last year, but in the second half of the year they fell below.

I would like to call your attention also to the fact that the peak hours per week in 1953 occurred in March, which was a little better than 41 hours.

There was a slight decline in April, which might have been just seasonal, but it was quite significant to us when that was followed up by a further decline in May. In other words, this was one of the earliest indicators that the top of the boom had been reached, although employment still continued, in terms of employees, to rise for some months afterward.

In August the lines crossed each other, and toward the end of the year you will see that we were working about 40 hours per week in manufacturing industries. That was about an hour and a half less than it was in December of the previous year.

Senator DOUGLAS. With the overtime bonus, which is characteristic of a good many industries, that would be a decline of nearly two and a quarter percent, probably, in average weekly earnings.

Mr. CLAGUE. There was not a similar decline, Senator, in average weekly earnings because——

Senator DOUGLAS. I beg your pardon; go ahead.

Mr. CLAGUE. Because the increase in wages per hour balanced the decline in the working time, so that workers ended up with about the same weekly earnings at the end of the year that they had all year.

Senator DOUGLAS. Let us put it this way: Had it not been for the increase in the hourly wage rate, the reduction of an hour and a half of overtime above 40 hours probably would have decreased earnings by three and a quarter percent lower than it otherwise would have been had the same number of hours been worked in December 1953.

Mr. CLAGUE. That is correct. But it happened that those two exactly counterbalance each other, and the weekly earnings remained at $72 per week, or almost that, for the entire year of 1953.

Senator DOUGLAS. What was happening to the cost of living during that time?

Mr. CLAGUE. Well, it has remained pretty stable, also.

Senator DOUGLAS. Did it not increase slightly?

Mr. CLAGUE. Yes. It increased slightly during 1953; but it reached a low point in February 1953; it rose until October; it declined in November and December.

Senator DOUGLAS. Do you have the overall figures for the year?

Mr. CLAGUE. Yes, it was declining, you may recall, last winter, from a high point in November 1952 of 114.3, down to 113.4, or about 1 percent in February. It rose to about 115.4 in October 1953, and then it fell to 114.9 in December. So that it stayed within a range of about 1 or 1½ percent all year. I would say, on the whole, it was stable during the year.

Senator DOUGLAS. It increased approximately 1 percent.

Mr. CLAGUE. Yes.

Now, the next chart shows the man-hours in manufacturing, and this, in a way, shows the true volume of employment. (See chart "Changes in Man-Hours From Year-Ago Levels Vary Widely Among Industries," p. 259.)

Obviously, an employer can keep all his men on and work them shorter hours or he can take fewer men and work longer hours, but the actual man-hours used represents the true volume of employment from a certain point of view. Therefore, our Bureau has been publishing, recently, derived from these same reports, a statistic of aggregate weekly man-hours of production workers in manufacturing industries.[1] (See chart "Indexes of Aggregate Weekly Man-Hours of Production Workers in Manufacturing Industries," p. 260.)

Now, this chart I use here is simply to show how different manufacturing industries made out over the year from December 1952, to December 1953.

You will notice that Ordnance has gone up 6 percent. Of course, that is a war industry. Printing is up slightly. Notice the industries that have very small decreases—miscellaneous, paper, petroleum, instruments, chemicals. Manufacturing as a whole, had a decline of 9 percent in man-hours worked, over the year from December to December.

If you look at the bottom of the chart you see the industries that have declined the most. There are textiles, which is down 15 percent in man-hours, and rubber, which is about the same, 15 percent.

There is leather at about 12, furniture, transportation equipment, and primary metals at about 11. That chart is simply to show the variation among the different industries.

The next chart concerns hiring and layoff rates—sensitive indicators which are useful in indicating turns in the business situation. (See chart "Hiring and Layoff Dates in Manufacturing Industries," p. 261.) These are derived from the reports of about 7,000 manufacturing establishments which report directly to the Bureau of Labor Statistics.

You will see there on the top half of the chart the hiring rate of employers, 1953 by months, against the average for the preceding 6 years, 1947 through 1952.

Again you will notice that in the first half of the year the hiring rate of 1953 was higher than the average of the past 6 years. The peak was reached in June and, of course, that is a seasonal peak, because that is when the young people come out of school and enter the labor market, and it is when some industries will step up operations for the summer.

You will notice that in June the hiring rate was higher in 1953 as compared to the previous 6 years average.

However, in July it fell below, and then for the remaining part of the year it was steadily below the average, down through December.

Conversely, the layoff rate shows the way in which the employer cuts down on his staff, and there again you will see that for the first half of 1953, layoff rates were almost at a post-war low. They were less than 10 per thousand, which means less than one percent per month, and once more you will notice that June was pretty close to the low point of the year.

Then, the layoff rate turned up; it crossed the 6-year average in August, and continued on to the end of the year, when it was about 30 per thousand or three percent.

Senator DOUGLAS. Three percent per month?

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[1] Supplementary material on Indexes of Aggregate Man-Hours in Industrial and Construction Activities, 1947 to Date, has been furnished to the committee by the Bureau of Labor Statistics and is printed at a later point in these hearings (p. 282–283.)

Mr. CLAGUE. Three percent per month.

Senator DOUGLAS. On a yearly basis that would be 36 percent.

Mr. CLAGUE. That is right.

Then my final chart shows the breakdown by States which gives you a little bit of a pattern of employment throughout the country. (See chart Manufacturing Employment Trends Over the Past Year Varied Considerably Among States, p. 262.) The light areas indicate States which actually increased manufacturing employment, or had a negligible increase.

I call attention to the fact that this manufacturing—I am centering on the industries that have had a downturn—manufacturing employment in the light States had either an increase or a decrease of less than one percent.

The gray areas showed a decrease of between 1 and 5 percent, and finally the darkened areas showed decreases of 5 percent or more.

It shows that the development is quite scattered throughout the country. In New England, you will note that Maine and Rhode Island are in the sharpest decline group, but Vermont and Connecticut are in the most stable group. The big Middle Atlantic area is all gray. The area of largest decline would seem to be centered around the Great Lakes and in the Midwest generally.

Representative PATMAN. Do you have the critical areas in any map?

Mr. CLAGUE. No. Mr. Goodwin talks about them. I have only presented statewide figures here derived from our reporting system.

Now, next, Mr. Chairman, I would like to speak briefly about the figures for January. All this is a background to the January figures for employment in manufacturing.

You should recognize that the reports we obtain are for the midweek in the month, so I will be reporting to you now the employment indicated by reports for the pay period ending nearest the 15th of January.

We closed the books on our reports from these firms in the States on January 28; we processed the figures over the weekend with overtime staff, and we try to have them ready by the 4th of the month for Chairman Burns of the Council of Economic Advisers. We sent these figures over to him yesterday, and I am presenting them to you here today.

Normally, we wait until we get the total nonfarm employment as well, and issue the two together to the public. That would mean waiting probably until next Monday or Tuesday when we will have the entire series issued for the public use. (See supplemental statement on Employment and Hours in January 1954, which follows Mr. Clague's testimony, p. 255.)

If you look at table 2 in the supplementary statement covering January 1954, you will have these figures before you. I shall just pick out a few highlights because there is no need of looking at the detail. The total manufacturing employment was about 16,500,000 in December 1953, and it fell to 16,100,000 in January, or a decline of about 400,000.

Senator DOUGLAS. Well——

Mr. CLAGUE. About 382,000, to be exact.

Senator DOUGLAS. 382,000.

Mr. CLAGUE. 382,000. It is over in the right-hand column; in the second column from the right you see the figure of 382,000 and you will notice it is about equally divided between durable goods, or hard goods, and soft goods, both of which had identical declines.

If you want to compare it over the year, you will see it in the column at the extreme right, that is, January 1953 to January 1954; we are down about 770,000 from January 1953; the decline of durable goods or hard goods was about 500,000, about half a million, and soft goods about 270,000.

Now, you don't have before you the figures on hours per week, but I will add that to the testimony. (See table 3 in the supplementary statement covering January 1954, p. 265.) The hours per week in manufacturing went down about three quarters of an hour from December 1953 to January 1954, and the average for January was 39.4, about 39 and a half.

Senator DOUGLAS. So that would be a decline from December 1952 of approximately 2¼ percent, a decline of 1½, not percent, but hours.

Mr. CLAGUE. Hours.

Senator DOUGLAS. The decline from December 1952 to December 1953 was 1½ hours.

Mr. CLAGUE. Yes.

Senator DOUGLAS. From December to January, three-quarters of an hour.

Mr. CLAGUE. Yes.

Senator DOUGLAS. So it would be 2¼ hours.

Mr. CLAGUE. That is right.

By the way, the drop from December 1953 to January 1954 was about the same, three-quarters of an hour, in both the hard goods and the soft goods.

Comparing it with January 1953 there was a decline of about 1½ hours per week in manufacturing as a whole, and that was a little more in the hard goods, which was done about 1¾ hours, while the soft goods went down about 1¼.

Representative BOLLING. At that point, what would you consider the normal seasonal decline?

Mr. CLAGUE. Well, the Bureau of Labor Statistics does not itself produce seasonals. There is a large element of judgment in making seasonal adjustments, and we prefer to publish the figures just as they come in raw.

Now, the Federal Reserve Board does prepare some estimates of seasonality in employment, but lots of people can prepare seasonals, and no two people might agree on the same ones. Some of this decline is seasonal, without a question, but how it divides between the two is rather hard to say.

I would like to summarize very briefly, if I might, so that the import of what I am saying will be clear.

First, we had a 3-year rise from June 1950 to June 1953 of nearly 5 million in nonfarm employment in the United States. The peak of employment in 1953 was reached in early summer, the peak of intensity in the labor market, I would say. My own guess is June, but somebody might guess some other point.

The indication of the turn occurred in the weekly hours, as I stated earlier, which started to decline in the spring. Employers started to cut down on the overtime.

You will notice how closely that corresponded to Korea.

The hirings, going down, and the layoffs, going up, signaled the change about July or August, and finally, the less-than-seasonal, using seasonal now as a highly judgmental factor, the less-than-seasonal rise in manufacturing employment gave a signal in August. Employment in August was a little bit below what the rise would normally have been. In other words, the top of the boom occurred in early summer.

The decline during 1953 in the second half of the year was, in general, confined to manufacturing. Other nonfarm employment remained high.

This, of course, is quite consistent with the inventory liquidation which is what this readjustment has been so far. In 1949 it was the same situation: the employment in manufacturing was the only part of nonfarm employment that was very much influenced.

Finally, this time there is evidence of the durable goods being affected by it as well as the soft goods. Heretofore, in many of the readjustments of the last few years, soft goods have been the leaders and the outstanding decliners, so to speak. This time it has spread to metals and metal products and, that I think, undoubtedly reflects the ending of the Korean war.

I think that is all, Mr. Chairman; that finishes my statement.

Chairman WOLCOTT. Thank you, Mr. Clague. Are there any questions from the committee?

Representative BOLLING. I would like to ask a few.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. This same line of very simple questions about the adequacy of your force, and do you have sufficient appropriations to carry out this work at the level of efficiency that you desire?

Mr. CLAGUE. Mr. Congressman, that is always a difficult question for an administrator to answer. There is not any time when he could not use a little more money, and I could use some right now.

At the same time, I would certainly say to you that I think we are performing quite well, as you can see, both from the size of our sample, the speed of our operation and, I think, the validity of our data. So that I should say we accept the situation.

Representative BOLLING. Specifically in what way could you use additional personnel or machinery or what have you; what more could you do and would you do if you had additional appropriations?

Mr. CLAGUE. Well, there are additional local areas where this program could be extended, if there were some more funds for us and the States to share in extending it. I cited the fact that we now have a hundred local areas. There are some additional compilations that could be made. Sometimes we have the hours of work and the earnings for a local community, but not the employment figures. Sometimes we have the manufacturing employment and not total employment. Our program is still incomplete in various States and in various localities; it could be extended, if we had somewhat more funds, so that we would have complete statistics for all the States and for all the localities that are appropriate. I do not know how many localities, 100, 120, 115, but rounding out the program would be my first choice, if I had any more funds.

For example if we could round out our present program for employment, hours and earnings and include all the major labor market areas, of which there are now 171 designated by the Bureau of the Census, we would need approximately $600,000 additional. These funds would all be expended by all cooperating State agencies and no additional funds would be required for Washington staff. The State Labor Departments now cooperating with the Bureau would be required to increase their expenses by about $110,000.

Another program of this Bureau which furnishes extremely important information on developments in the labor market is the series on labor turnover. This very sensitive indicator of economic trends should also be extended. We estimate it would cost about $300,000 to provide a monthly series on labor turnover for the 171 metropolitan areas. About $200,000 of this amount would be expended through cooperating state agencies.

Representative BOLLING. Thank you.

(The supplementary materials and statement by Mr. Clague follows:)

EMPLOYMENT AND HOURS IN JANUARY 1954

SUPPLEMENTARY STATEMENT BY COMMISSIONER EWAN CLAGUE

The number of workers on nonfarm payrolls declined by 2 million between December 1953 and January 1954, mainly because of seasonal factors. Retail stores and Federal post offices laid off temporary Christmas season employees. Construction employment declined as cold weather slowed down outdoor activity. In manufacturing, however, the over-the-month drop was appreciably larger than usual as the downtrend in factory employment continued into the new year.

The nonfarm employment total of 47.7 million in January was the largest ever reported for the month, except in 1953. The manufacturing work force this January was smaller than a year earlier, but nonmanufacturing employment was actually higher than the previous record for the season.

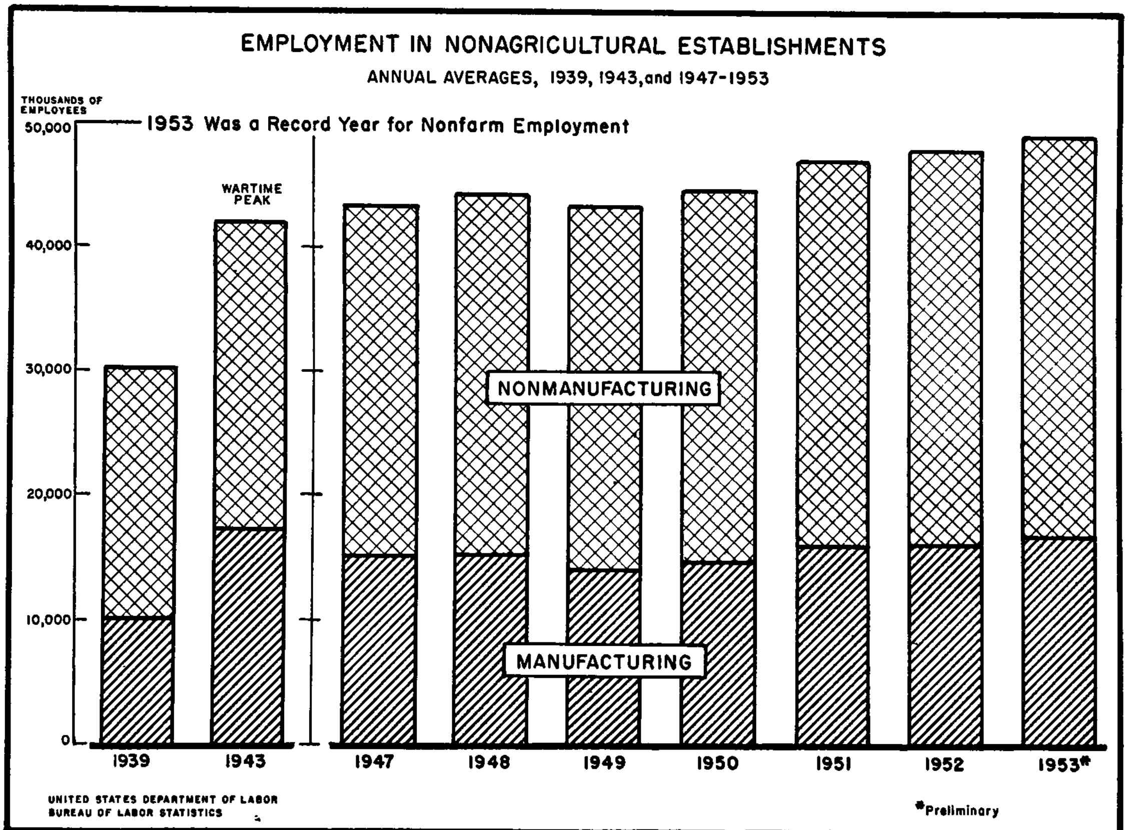
The number of employees in manufacturing industries dropped by 380,000 between mid-December and mid-January. Manufacturing activity usually slackens at this time of year, reflecting midwinter curtailment of lumbering and food processing, post-Christmas cutbacks in consumer-goods industries, and other seasonal factors. The decline this year was larger than usual and, in fact, was the sharpest reduction for the season since January 1949. The latest developments marked the continuation of the downtrend in factory employment first evident in mid-1953.

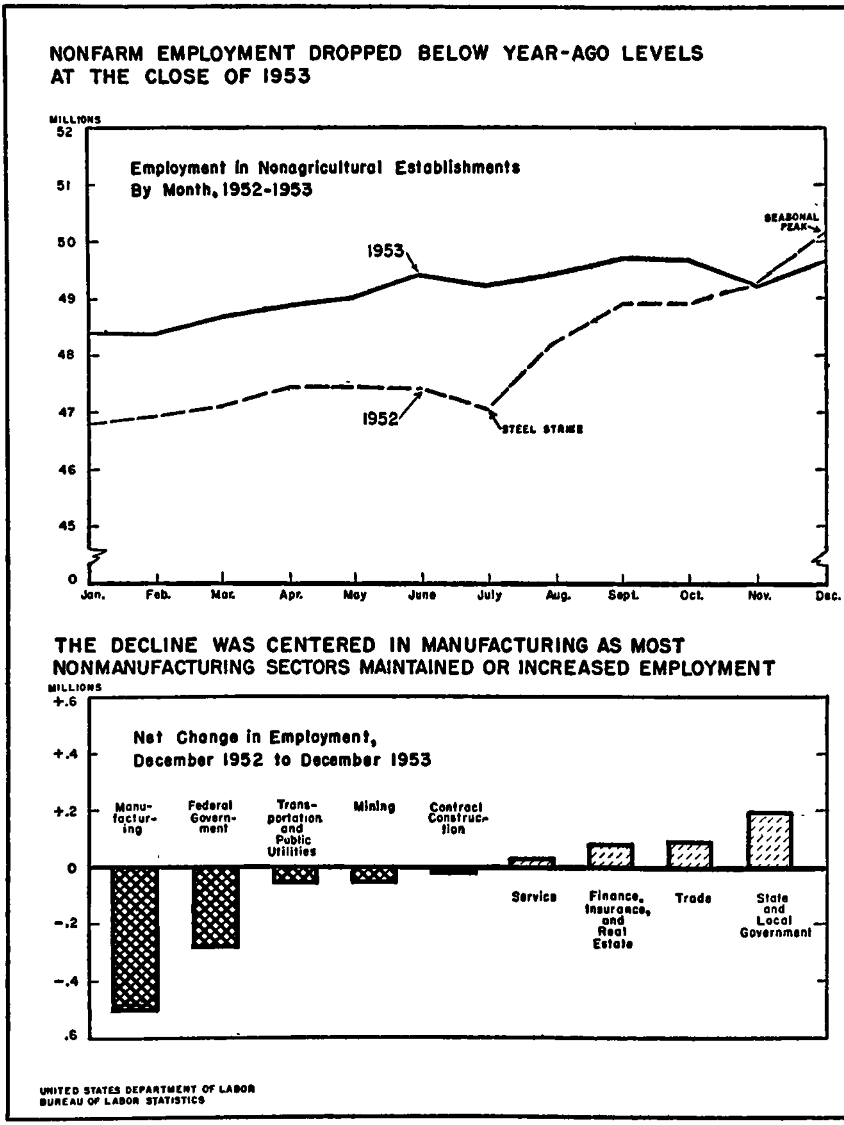
At 16.1 million, the number of workers on manufacturing payrolls in January 1954 was three-quarters of a million less than a year earlier. However, the total was the highest for the month in any postwar year except 1953. Three industry groups—primary metals, machinery, and textiles—accounted for nearly half of the total decline in manufacturing employment between January 1953 and January 1954.

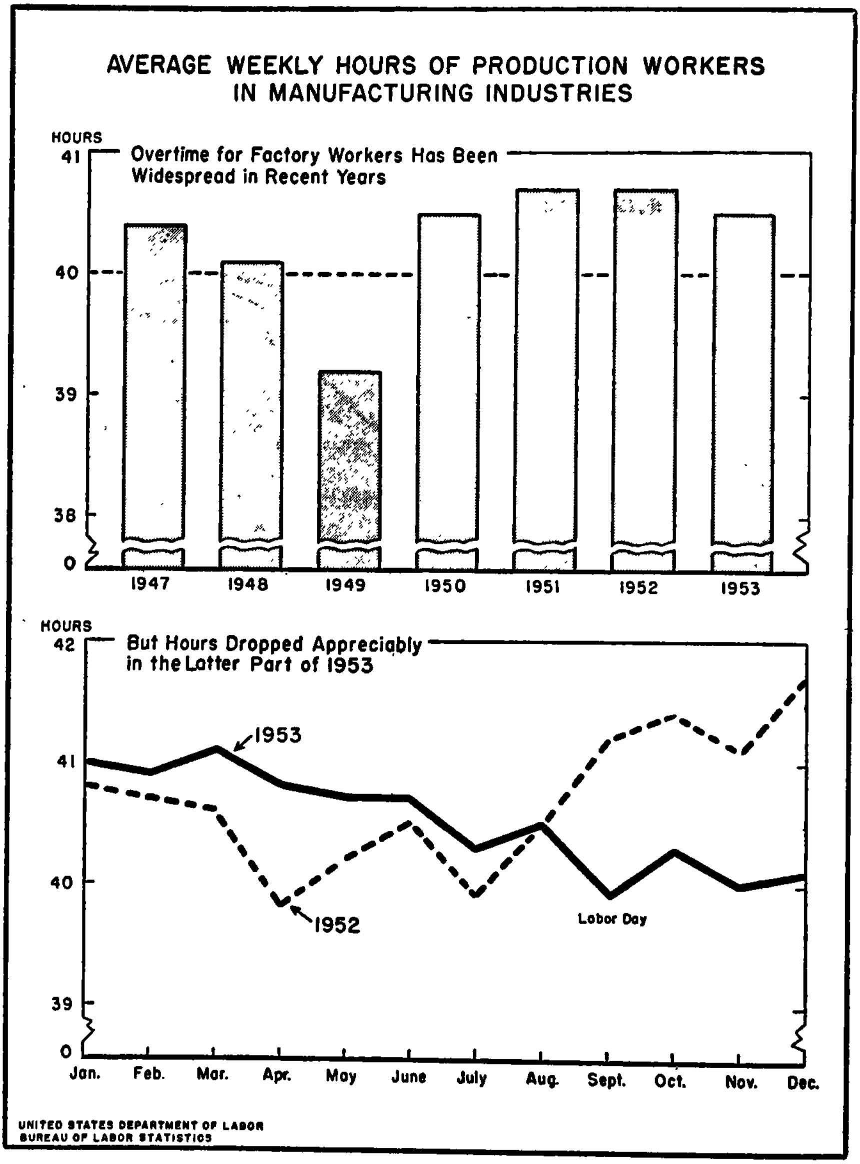
At the turn of the year, seasonal changes dominated employment developments in nonmanufacturing industries. However, the decline in manufacturing activity was reflected in a more-than-usual decrease in transportation employment.

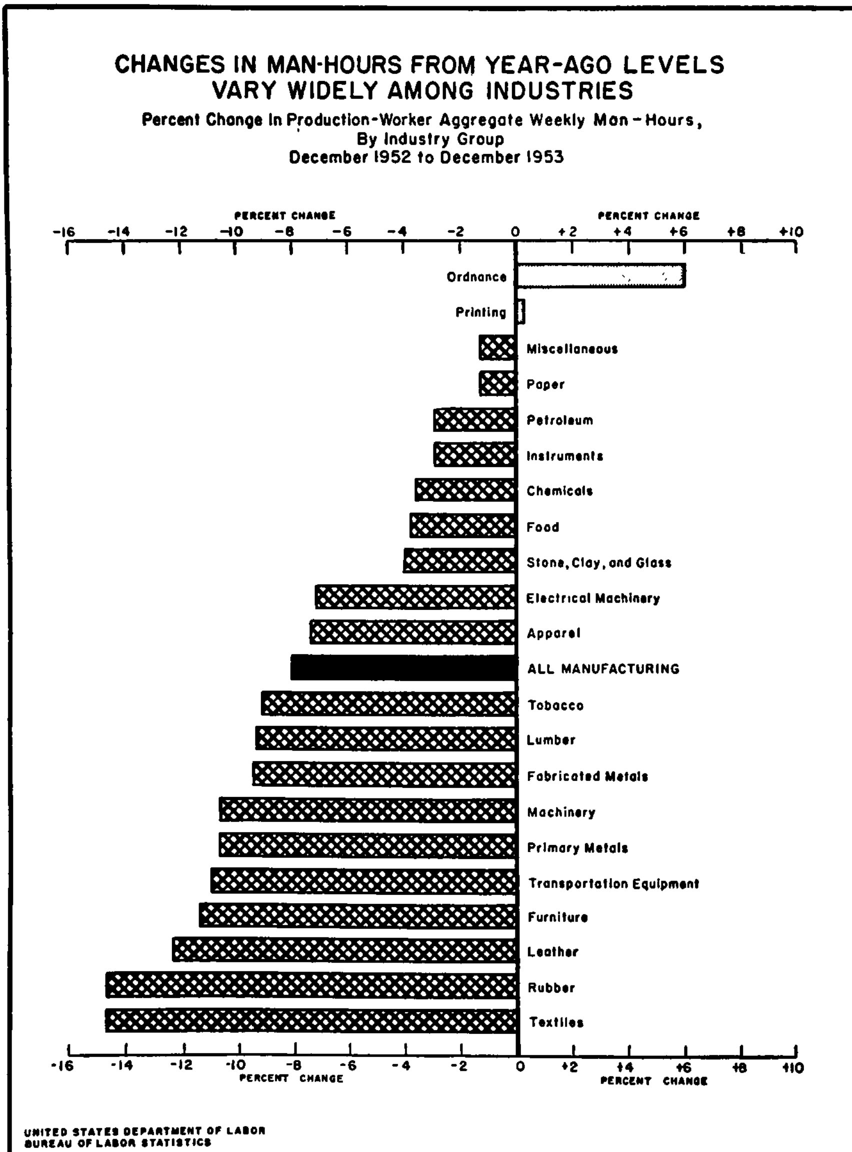
The workweek of factory production workers dropped four-fifths of an hour between mid-December and mid-January. At 39.4 hours, the January 1954 workweek was 1.6 hours below the postwar peak for the month reached in 1953. Hours usually decline in January, but this decrease was the largest in recent years.

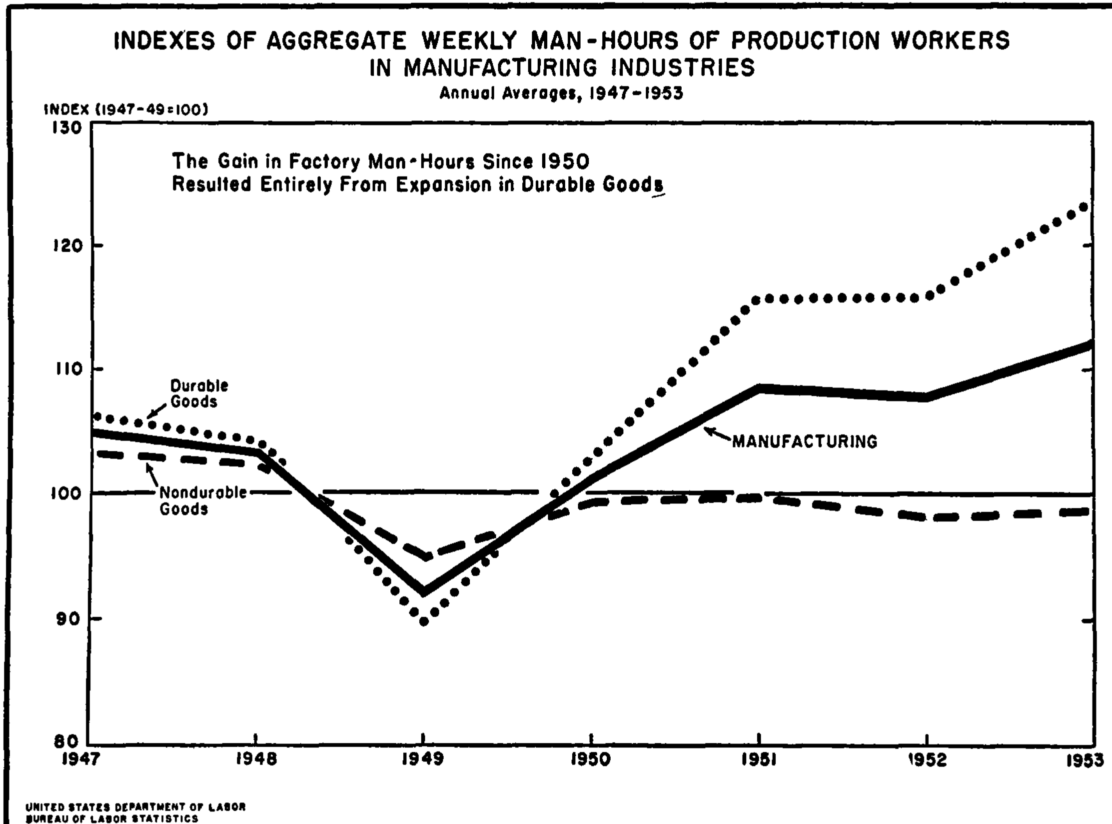
The combined effects of reduced hours and employment declines were reflected in a further reduction in aggregate weekly man hours of production workers in manufacturing industries. Since October 1953, aggregate man hours have been significantly below the figures for the corresponding months a year earlier. In January 1954, man hours in manufacturing declined by about 10 percent over the year to an index of 101.8 (1947–49 average=100).

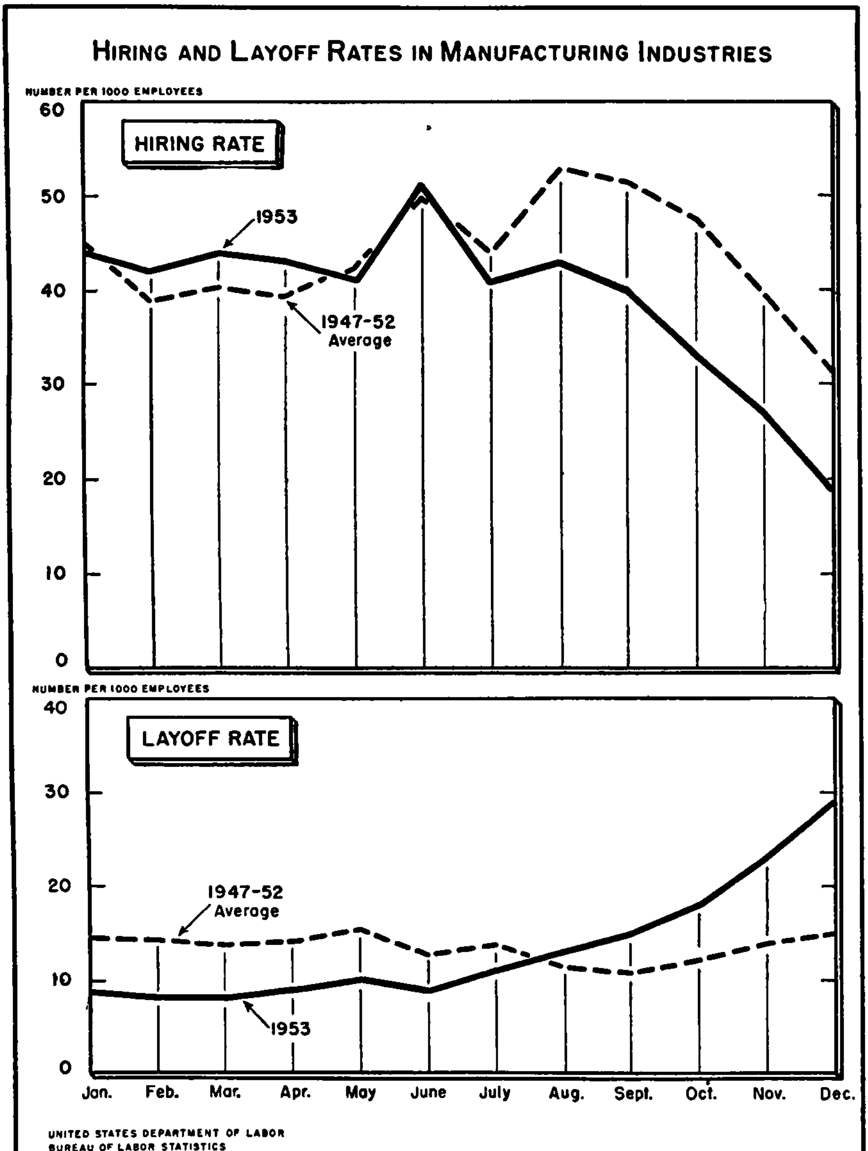

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS
ANNUAL AVERAGES, 1939, 1943, and 1947-1953
THOUSANDS OF EMPLOYEES
1953 Was a Record Year for Nonfarm Employment
50,000
40,000
30,000
20,000
10,000
0
WARTIME PEAK
NONMANUFACTURING
MANUFACTURING
1939
1943
1947
1948
1949
1950
1951
1952
1953*
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
*Preliminary


NONFARM EMPLOYMENT DROPPED BELOW YEAR-AGO LEVELS AT THE CLOSE OF 1953
MILLIONS
Employment in Nonagricultural Establishments By Month, 1952-1953
1953
1952
SEASONAL PEAK
STEEL STRIKE
52
51
50
49
48
47
46
45
0
Jan.
Feb.
Mar.
Apr.
May
June
July
Aug.
Sept.
Oct.
Nov.
Dec.
THE DECLINE WAS CENTERED IN MANUFACTURING AS MOST NONMANUFACTURING SECTORS MAINTAINED OR INCREASED EMPLOYMENT
MILLIONS
Net Change in Employment, December 1952 to December 1953
+.6
+.4
+.2
0
-.2
-.4
.6
Manufacturing
Federal Government
Transportation and Public Utilities
Mining
Contract Construction
Service
Finance, Insurance, and Real Estate
Trade
State and Local Government
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS


AVERAGE WEEKLY HOURS OF PRODUCTION WORKERS
IN MANUFACTURING INDUSTRIES
HOURS
41
40
39
38
0
Overtime for Factory Workers Has Been
Widespread in Recent Years
1947
1948
1949
1950
1951
1952
1953
HOURS
42
41
40
39
0
But Hours Dropped Appreciably
in the Latter Part of 1953
1953
1952
Labor Day
Jan.
Feb.
Mar.
Apr.
May
June
July
Aug.
Sept.
Oct.
Nov.
Dec.
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS


CHANGES IN MAN-HOURS FROM YEAR-AGO LEVELS
VARY WIDELY AMONG INDUSTRIES
Percent Change In Production-Worker Aggregate Weekly Man-Hours,
By Industry Group
December 1952 to December 1953
PERCENT CHANGE
-16 -14 -12 -10 -8 -6 -4 -2 0 +2 +4 +6 +8 +10
Ordnance
Printing
Miscellaneous
Paper
Petroleum
Instruments
Chemicals
Food
Stone, Clay, and Glass
Electrical Machinery
Apparel
ALL MANUFACTURING
Tobacco
Lumber
Fabricated Metals
Machinery
Primary Metals
Transportation Equipment
Furniture
Leather
Rubber
Textiles
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS


INDEXES OF AGGREGATE WEEKLY MAN-HOURS OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRIES
Annual Averages, 1947-1953
INDEX (1947-49=100)
130
120
110
100
90
80
1947
1948
1949
1950
1951
1952
1953
The Gain in Factory Man-Hours Since 1950 Resulted Entirely From Expansion in Durable Goods
Durable Goods
MANUFACTURING
Nondurable Goods
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS


HIRING AND LAYOFF RATES IN MANUFACTURING INDUSTRIES
NUMBER PER 1000 EMPLOYEES
60
50
40
30
20
10
0
HIRING RATE
1953
1947-52
Average
NUMBER PER 1000 EMPLOYEES
40
30
20
10
0
LAYOFF RATE
1947-52
Average
1953
Jan.
Feb.
Mar.
Apr.
May
June
July
Aug.
Sept.
Oct.
Nov.
Dec.
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

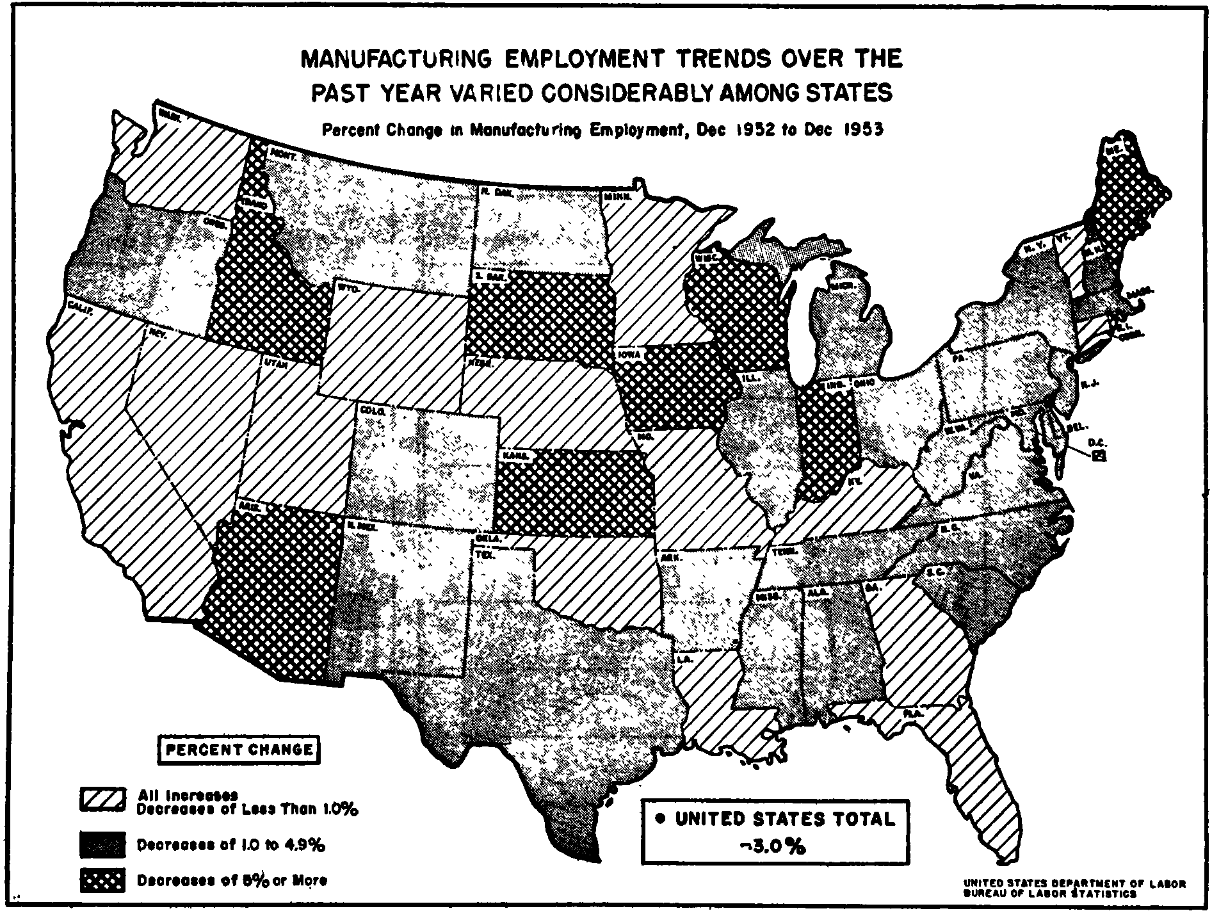

MANUFACTURING EMPLOYMENT TRENDS OVER THE PAST YEAR VARIED CONSIDERABLY AMONG STATES
Percent Change in Manufacturing Employment, Dec 1952 to Dec 1953
PERCENT CHANGE
All Increases
Decreases of Less Than 1.0%
Decreases of 1.0 to 4.9%
Decreases of 5% or More
• UNITED STATES TOTAL
-3.0%
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

TABLE 1.—*Employees in nonagricultural establishments, by industry division and selected groups*

[In thousands]

Industry division and group	1954	1953				January 1954 net change from	
	January[1]	December	November	October	January	December 1953	January 1953
Total	47,736	49,739	49,332	49,663	48,382	−2,003	−646
Manufacturing	16,113	16,495	16,709	17,017	16,884	−382	−771
Mining	793	809	817	813	866	−16	−73
Metal mining	97.7	99.0	99.1	99.2	101.7	−1.3	−4.0
Bituminous-coal	277.7	280.4	285.9	283.7	330.7	−2.7	−53.0
Nonmetallic mining and quarrying	95.3	101.6	103.5	105.3	97.6	−6.3	−2.3
Contract construction	2,252	2,520	2,669	2,772	2,303	−268	−51
Transportation and public utilities	4,143	4,241	4,272	4,310	4,210	−98	−67
Transportation	2,830	2,923	2,952	2,989	2,914	−93	−84
Communication	742	745	746	748	734	−3	+8
Other public utilities	571	573	574	573	562	−2	+9
Wholesale and retail trade	10,423	11,324	10,766	10,611	10,283	−901	+140
Wholesale trade	2,755	2,793	2,792	2,768	2,747	−38	+8
Retail trade	7,668	8,531	7,974	7,843	7,536	−863	+132
General merchandise stores	1,410.1	1,994.5	1,601.0	1,495.5	1,406.5	−584.4	+3.6
Food and liquor stores	1,411.5	1,444.9	1,431.0	1,421.7	1,370.9	−33.4	+40.6
Automotive and accessories dealers	863.5	866.1	858.4	854.2	807.5	−2.6	+56.0
Apparel and accessories stores	579.0	713.2	619.9	608.4	573.6	−134.2	+5.4
Other retail trade	3,403.3	3,512.2	3,463.3	3,463.2	3,377.6	−108.9	+25.7
Finance, insurance, and real estate	2,049	2,064	2,056	2,055	1,969	−15	+80
Service and miscellaneous	5,216	5,268	5,303	5,336	5,192	−52	+24
Government	6,747	7,018	6,740	6,749	6,675	−271	+72
Federal	2,174	2,489	2,191	2,195	2,350	−315	−176
State and local	4,573	4,529	4,549	4,554	4,325	+44	+248

[1] Data for January 1954 are preliminary. Data for November and December are subject to revision.

TABLE 2.—*Employees in manufacturing major industry groups*

[In thousands]

Industry group	1954	1953				January 1954 net change from	
	January [1]	December	November	October	January	December 1953	January 1953
Manufacturing	16,113	16,495	16,709	17,017	16,884	−382	−771
Durable goods	9,381	9,572	9,700	9,879	9,880	−191	−499
Ordnance and accessories	186.9	195.9	200.6	204.6	181.0	−9.0	+5.9
Lumber and wood products (except furniture)	679.4	713.7	751.6	773.0	744.3	−34.3	−64.9
Furniture and fixtures	346.3	358.6	365.2	367.5	382.6	−12.3	−36.3
Stone, clay, and glass products	511.8	527.0	538.7	544.7	531.3	−15.2	−19.5
Primary metal industries	1,229.7	1,259.2	1,275.5	1,300.7	1,335.8	−29.5	−106.1
Fabricated metal products (except ordnance, machinery, and transportation equipment)	1,088.8	1,086.6	1,120.6	1,142.0	1,135.2	+2.2	−46.4
Machinery (except electrical)	1,586.0	1,600.3	1,602.3	1,614.6	1,702.1	−14.3	−116.1
Electrical machinery	1,112.9	1,145.6	1,177.6	1,196.1	1,173.5	−32.7	−60.6
Transportation equipment	1,830.8	1,857.7	1,821.8	1,885.2	1,891.5	−26.9	−60.7
Instruments and related products	325.0	330.4	332.9	330.9	327.5	−5.4	−2.5
Miscellaneous manufacturing industries	482.9	496.8	513.0	519.2	474.9	−13.9	+8.0
Nondurable goods	6,732	6,923	7,009	7,138	7,004	−191	−272
Food and kindred products	1,421.5	1,495.6	1,562.7	1,631.0	1,455.7	−74.1	−34.2
Tobacco manufactures	101.5	115.0	111.9	119.5	110.0	−13.5	−8.5
Textile-mill products	1,094.0	1,135.1	1,152.2	1,173.6	1,227.9	−41.1	−133.9
Apparel and other finished textile products	1,177.3	1,205.0	1,200.2	1,216.9	1,234.5	−27.7	−57.2
Paper and allied products	529.3	534.9	538.8	541.8	522.1	−5.6	+7.2
Printing, publishing, and allied industries	792.0	802.6	798.5	797.5	772.5	−10.6	+91.5
Chemicals and allied products	739.9	745.6	752.2	756.5	749.0	−5.7	−9.1
Products of petroleum and coal	253.3	256.0	259.2	261.5	258.3	−2.7	−5.0
Rubber products	249.7	256.5	259.4	265.0	275.1	−6.8	−25.4
Leather and leather products	373.5	376.2	374.1	374.7	398.7	−2.7	−25.2

[1] Data for January 1954 are preliminary. Data for November and December are subject to revision.

TABLE 3.—*Average weekly hours of production workers in manufacturing major industry groups*

Industry group	1954	1953	
	January [1]	December [1]	January
Manufacturing	39.4	40.2	41.0
Durable goods	40.1	40.8	41.8
Ordnance and accessories	39.9	40.4	41.0
Lumber and wood products (except furniture)	39.6	40.5	40.7
Furniture and fixtures	39.7	40.7	41.4
Stone, clay, and glass products	39.2	40.7	40.6
Primary metal industries	39.8	39.7	41.7
Fabricated metal products (except ordnance, machinery, and transportation equipment)	40.6	41.5	42.4
Machinery (except electrical)	41.0	41.9	43.0
Electrical machinery	39.0	40.2	41.7
Transportation equipment	40.6	40.7	41.9
Instruments and related products	40.0	41.6	41.8
Miscellaneous manufacturing industries	39.8	40.9	41.4
Nondurable goods	38.5	39.3	39.8
Food and kindred products	40.5	41.3	41.1
Tobacco manufactures	37.3	39.2	38.5
Textile-mill products	37.2	38.3	40.1
Apparel and other finished textile products	34.6	36.0	36.7
Paper and allied products	42.6	42.8	43.1
Printing, publishing, and allied industries	38.5	39.4	38.7
Chemicals and allied products	41.1	41.5	41.2
Products of petroleum and coal	40.9	40.6	40.6
Rubber products	39.8	39.1	41.1
Leather and leather products	37.9	37.7	39.3

[1] Preliminary, subject to revision.

Recent Employment Developments in the United States, Statement by Ewan Clague, Commissioner of Labor Statistics

Recently, at the request of the Chairman of the Council of Economic Advisers, the Bureau of Labor Statistics speeded up the preparation and publication of its national figures of employment, hours, and earnings. Now, within 3 weeks of midmonth payroll reports, comprehensive information is available for appraisal of what is happening in all major manufacturing and nonmanufacturing industries. Perhaps no other body of current economic statistics provides such timely facts on current economic trends in such specific industry detail. Each month data are published for about 400 separate industries. These data, made available through a Federal-State system of employer reports, have the added merit of showing State by State and for over 100 areas where business activity is picking up or falling off.

The present report describes the economic experience of the United States during 1953 as shown by these employment and payroll reports and related reports from employers on labor turnover. The monthly figures described what was happening and provided clues as to what was about to happen; no prevision was involved, simply a wealth of facts relevant to economic trends in the making.

The employment pattern of the past year shows two salient features: First, for the year as a whole, nonfarm employment was at an alltime peak; second, during the year, a downtrend in employment got under way and persisted to the year's end.

The number of workers on industry, business, and government payrolls averaged 49.1 million in 1953. This was 1.1 million more than in 1952, the best prior year in our employment history.

Our system of statistical reporting first detected the beginnings of a change in the situation when evidence of a reduction in factory overtime appeared in the late spring. Turnover data showed that factory hiring fell off sharply in midsummer. In terms of nonfarm employment levels, a sluggish seasonal pattern—i. e., less than usual gains from the midsummer low point—was the initial manifestation of the emergence of a new trend. The downtrend was gradual and the starting point very high, so that the nonfarm employment totals continued at alltime peaks for the season for several months. By November, however, the level was about equal to that of a year earlier, and by December the total was down a half million from the corresponding month of 1952.

This bare outline of recent events and these few over-all figures serve primarily to call attention to the fact of a change in the employment situation. However, in order to gage the dimensions of what has happened, and thus to understand the scope of the problem, these recent changes must be viewed in their historical perspective, with special reference to the period of expansion preceding the recent downtrend. Second, in order to identify the particular sectors of the economy that have been affected, it is necessary to probe beneath the aggregate figures and to examine some of the underlying industrial and geographic detail.

EMPLOYMENT EXPANSION DURING THE KOREAN EMERGENCY

In June 1953—shortly before the present downtrend started—nonfarm industries employed almost 5 million more workers than at the time of the Korean outbreak 3 years earlier. This increase was the largest recorded for any 3-year period since the all-out mobilization of World War II. It reflected not only the growing labor requirements of the defense production program, but also the greatly expanded demand for consumer goods and services.

The largest part of this increase—almost 3 million—occurred in the first 12 months after the Korean outbreak, as activity was stepped up in nearly every sector of the economy. The initial direct effects of the defense production program were relatively small, but many workers were added to nonfarm payrolls as consumers increased their purchases in anticipation of rising prices and shortages and as industry accelerated its expenditures for new plant and equipment.

The employment gain in the second post-Korean year was much more modest—about 500,000, after allowance for the effects of the mid-1952 work stoppage in the steel industry. Plants producing military goods and industrial equipment continued to build up their work force, and workers were added to government, finance, and trade payrolls. However, employment went down in many consumer-goods industries, as the early post-Korean buying waves were followed by slackened consumer demand and inventory buildup.

In the second half of 1952, renewed expansion of consumer demand and depletion of inventories brought recovery in consumer goods manufacturing. Also, the process of replenishing supplies of steel and steel products following the midyear strike intensified the employment uptrend. At the same time, employment in plants producing military goods and industrial equipment continued to increase, although at a slower pace than in the previous year. In the first half of 1953, employment was maintained at peak levels, showing little change from month to month apart from the usual seasonal variations.

As a result of the sharp employment gain in the last half of 1952, the number of workers on nonfarm payrolls in June 1953 was fully 1.5 million higher than a year earlier—after allowance for the mid-1952 stoppage in steel. Manufacturing industries accounted for the bulk of this increase. In 15 of the 21 major manufacturing groups, June 1953 employment was at a post-World War II peak for the month.

Among nonmanufacturing sectors, wholesale and retail trade, transportation and public utilities, finance, service, and State and local government were at all-time highs for the month. Employment in contract construction in June 1953, at 2.6 million, was above the pre-Korea level. However, construction industry employment was somewhat below the record for the month reached in 1951.

The only major nonmanufacturing industry reporting a reduction in its work force over the 3-year period was bituminous coal mining, where there has been a long-term downtrend in employment. At 300,000 in June 1953, employment in this industry was one-fourth below the June 1950 level.

Comparison of the industry distribution of nonfarm employment in mid-1953 with that of mid-1950 shows an increase in the relative importance of durable goods manufacturing. These industries added more than 2 million workers, and their proportion of all nonfarm employees rose from 18 to 20 percent.

Post-Korean gains in nondurable goods manufacturing were much more modest—totaling about 340,000 workers. The increase occurred principally in industries affected largely by expanding business and Government demand, particularly chemicals, paper, petroleum, and rubber. In contrast, June 1953 employment in textile mills was 3 percent below the pre-Korea level.

INDUSTRY PATTERN OF THE RECENT EMPLOYMENT DOWNTREND

In the late summer of 1953, employment began to edge down from the very high plateau attained earlier in the year. The nonfarm employment total in July showed a slight seasonal drop, largely because of vacation shutdowns in manufacturing industries and hot weather slackening in retail trade operations. The following month, however, there was an employment gain of only 200,000, considerably less than the upswing usually occurring as factories reopen after vacation shutdowns and consumer goods industries start to expand their production for the fall shopping season.

This initial failure to match seasonal expectations occurred primarily among manufacturing industries. It was manifested in a number of different industries which reported employment reductions greater than usual for this time of year, increases smaller than expected, or actual declines instead of anticipated gains. These industry groups included lumber; stone, clay, and glass; primary and fabricated metal products; machinery; transportation equipment; apparel; rubber; and leather. Signs of possible employment weakness earlier in the year had been limited to lumber, machinery, and the automobile component of transportation equipment. Most of these changes were quite small, however, and occurred at such high levels of employment that the overall manufacturing total remained at record levels.

Between August and September, the downtrend in factory employment was accelerated as the area of employment weakening widened to include additional industries. The number of workers on manufacturing payrolls was reduced by about 50,000 over the month, whereas in every prior year since the end of World War II, increases in the factory work force—averaging about 400,000—had been reported between August and September.

The closing months of 1953 were characterized by further losses in manufacturing employment. By December, the factory work force was 700,000 smaller than it had been in June. In most recent years, there has been an increase over this period, and in the few cases where there have been declines, the losses were very much smaller. As a result, the factory employment total for December 1953 was a half million below the December 1952 level. Nevertheless, the December

1953 figure—16.4 million—was a record for the month when compared with any postwar year other than 1952.

In the early stages of the downtrend, the majority of manufacturing industry groups remained at postwar employment peaks for the season. By December, however, most of them reported appreciable reductions from year-ago levels. A few—lumber; stone, clay, and glass products; and textiles—had reduced their employment to the lowest December level in four or more years. Over-the-year gains were limited to printing and publishing, paper, ordnance, instruments, and miscellaneous manufacturing.

During this period the pattern of nonmanufacturing employment contrasted with the developments in the manufacturing sector. State and local governments continued to add workers to their payrolls. Retail trade employment, buoyed by the maintenance of high rates of consumer buying, reached a December figure that was an alltime peak. The finance, insurance, service, and related industries also continued to expand. Contract construction employment in December was virtually equal to the record peak of the month reached December 1951.

On the other hand, employment in coal mining continued its long-term downtrend. The number of Federal employees showed further contraction, dropping to a level about a quarter million less than December 1952. The work force in the transportation industry, particularly railroads and trucking, also was reduced as an indirect result of the downtrend in manufacturing activity. By December 1953, the transportation employment total was down by about 90,000 over the year. These losses were offset by gains in other sectors so that the nonmanufacturing total at the close of 1953 was about equal to the high point for the month that had ben attained a year earlier. The nonfarm employment level, therefore, at 49.6 in December 1953, was down over the year only by the amount of the reduction in manufacturing.

FACTORY WORKWEEK REFLECTS CHANGING DEMAND FOR LABOR

Overtime work has prevailed in many manufacturing industries throughout most of the post-World War II period. As the chart on the factory workweek shows, average weekly hours in manufacturing industries have been above 40 in all but 1 of the past 7 years. At the same time, it will be noted that the average did not greatly exceed the 40-hour mark.

In the period following the outbreak of the Korean war, scheduling of overtime work was particularly widespread. In December 1952, for example, weekly hours of factory production workers averaged 41.7, three-tenths of an hour higher than in December of any other post-World War II year. In 3 industry groups, the workweek was above 43 hours.

It should be noted, moreover, that the scheduling of overtime work was actually a good deal more extensive than these figures indicate, since they refer to hours reported from payroll records. The scheduled workweek tends to be appreciably higher because of absenteeism, labor disputes, turnover within payroll period, and other factors resulting in losses of working time.

Changes in the workweek often represent adjustments to changes in labor demand; in fact, they often precede changes in the general employment situation by a considerable margin. When it is necessary to step up output, one of the quickest methods may be to increase hours of work, thus getting higher production in less time than it takes to recruit and train additional workers. This, together with large increases in employment, accounted for the sharp rise in output after the outbreak of the Korean war. Within 2 months after the start of hostilities, the factory workweek had risen to a post-World War II peak for that time of year.

The sensitivity of the workweek under conditions of contracting labor demand is illustrated by recent developments, which point to a tendency to eliminate overtime when production schedules are first cut back, before resorting to substantial layoffs. Well in advance of the late summer downtrend in factory employment, there were clear indications of some curtailment of overtime work. In March 1953, average weekly hours in 11 of the 21 major manufacturing groups were at 5-year peaks for the month. By May, this list had been reduced to eight industries. Only two industry groups were in this category by August.

However, the downtrend in the workweek, like the employment decline, was gradual, so that it was not until October 1953 that hours showed a significant over-the-year drop. By December 1953, the workweek was more than an hour and a half below the year-ago level, and it was the lowest reported for the month since 1949. However, the December average of 40.1 hours suggests the continuation of significant, although considerably reduced, amounts of overtime work in the manufacturing economy.

The decline in the workweek occurred in all major industries. However, in printing and publishing, chemicals, petroleum products, and tobacco, the workweek was only slightly below year-ago levels. On the other hand, the reductions were two or more hours in rubber, transportation equipment, textiles, leather, and furniture. Of the latter industries, hours in furniture and textiles were at post-World War II lows for the month of December.

The extent to which decreases in hours of work may have substituted for employment reductions in recent months can be roughly gaged by translating the changes in the workweek into employment equivalents. The decreases in the workweek between December 1952 and December 1953 were the equivalent of about 400,000 jobs for factory production workers; that is, with total man-hours at the December 1953 level and average weekly hours maintained at the relatively high year-ago figures, the number of workers employed might have been smaller by that amount.

MAN-HOURS AS A SUMMARY MEASURE OF INDUSTRY EMPLOYMENT AND HOURS CHANGES

The volatility of the manufacturing sector of the economy is most strikingly revealed by changes in production worker aggregate weekly man-hours, which measure the combined effects of variations in employment and hours of work. The man-hours index (1947–49 average=100) rose from 99 in the pre-Korea month of June 1950 to almost 114 in June 1953—a post-World War II peak for the month. Virtually all the increase occurred in the durable-goods industries, and particularly in metals and metal products manufacturing, where expanding defense production, increased business outlays for new equipment, and larger consumer expenditures for automobiles and other appliances all acted to build up the demand for labor. The rise in nondurable goods manufacturing was much smaller, and the level attained in June 1953 was only slightly above the average for the month in earlier postwar years.

Cutbacks in factory overtime and reduction in the work force—with the latter factor having the greater weight—brought the man-hours index almost steadily downward in the second half of 1953. By October, there was an over-the-year reduction of about 2 percent. At the close of 1953, the index was down to 106—not only 8 percent lower than in December 1952 but also the lowest December figure since 1949.

Underlying the overall drop in factory man-hours were wide differences among industries. Except for ordnance and printing, all major industry groups showed some loss in man-hours over the year. In two groups, textiles and rubber, the rdeuction was almost 15 percent. Measured in man-hour terms, the various industries also differed in their situation relative to that of prior years. The following comparisons suggest the extent to which the recent reductions have been concentrated in the weaker industries versus the extent to which they have occurred in the highly expanded fields.

Seven industry groups reported over-the-year reductions in man-hours in the 10 to 15 percent range. In December 1952, five of these groups—furniture, primary metals, machinery, transportation equipment, and rubber—were at or very near postwar peaks for the season. In all of these, the December 1953 man-hours levels were still well above the December low points recorded in the previous 6 years. In fact, man-hours in transportation equipment were at a postwar high for the month—except for 1952—as expansion in aircraft production partly offset reduced activity in automobile plants and shipyards.

In leather products, the December 1953 level was somewhat above the postwar low for the month reached in 1951, despite a 12-percent drop in man-hours between December 1952 and December 1953.

In the textile industry group, where the over-the-year decline also fell within the 10 to 15 percent range, the situation was quite different. The year-ago level was low compared with most other postwar Decembers. As a result, the recent decline brought textile man-hours in December 1953 to the lowest point for the season in many years. The drop from the peak level for the month attained in 1947 was 25 percent.

Of the industries where man-hours were maintained not far from the December 1952 level—that is, where increases occurred or reductions were less than 5 percent—only food, stone, clay, and glass products, and chemicals were at a low point in December 1953. Man-hours in the other industry groups falling within this general category of over-the-year change—printing and publishing paper, instruments, petroleum products, ordnance, and miscellaneous manufacturing—were at or not substantially below 7-year peaks for the month.

TURNOVER STATISTICS POINT TO CHANGES IN THE LABOR MARKET

Additional insight into the nature of employment changes often can be gained by examination of trends in labor turnover: the rates at which workers are being hired, laid off, or are quitting their jobs. Even before the current employment downturn was reflected in employment levels, a marked falling off in factory hiring rates signaled a possible change in employment conditions. In July 1953 factory hiring, which for a number of months had been equal to or above the postwar average for the season, dropped more sharply than usual. In August, the customary late summer upsurge in hiring was almost completely absent, and in the following month there was a greater-than-seasonal decline. After this initial downturn, hiring rates largely conformed to the seasonal pattern for the balance of the year, remaining at relatively low levels.

Layoffs did not rise appreciably until a somewhat later stage of the employment downturn. Not until September was the layoff rate significantly above the average for the month in the preceding 6 years. By December, however, the rate had reached 29 per thousand employees, the highest for the season in the postwar period.

The quit rate in manufacturing industries has long served as a sensitive index to changing labor market conditions. For example, the factory quit rate dropped from 17 per thousand in December 1948 to 9 per thousand in December 1949. Conversely, the recovery after 1949 was reflected in a virtual doubling of the quit rate. These changes largely represent the response of workers to the availability of jobs. When employment is expanding and alternate opportunities are more numerous, workers are more likely to quit their jobs to search for better ones. Under conditions of contracting opportunity, they tend to hold on to their current jobs.

In the current situation, the trend of quite rates has again reflected the operation of these factors. Quits began to fall off appreciably in the late summer of last year from the relatively high levels that had been maintained in early months. In December 1953 the rate was down to a postwar low for the month, with the exception of December 1949.

GEOGRAPHIC DIFFERENTIALS IN EMPLOYMENT TRENDS

Differences in the industrial composition of the various regions of the United States, as well as differential trends within industries, are reflected in interstate variations in employment trends. These geographic differences have been quite marked in recent years as a variety of special factors associated with the Korean emergency and related economic developments were superimposed on the long-term locational trends of American industry.

The contraction of factory employment over the past year also has been unequally distributed among the various States. In a number of States, there was little net change in factory employment over the past year and in some, increases actually occurred. Except for California, Connecticut, and Missouri, however, none of these was among the leading industrial States.

At the other end of the scale, with over-the-year declines of 5 percent or more, were a number of widely scattered States—Maine, Rhode Island, Indiana, Wisconsin, Iowa, South Dakota, Kansas, Idaho, and Arizona. A variety of factors contributed to these changes, including in the case of the major industrial States, employment cutbacks in automobiles, farm machinery, and textiles.

COMPARISON OF CURRENT TRENDS WITH 1948–49 EXPERIENCE

Discussion of current employment developments often turns to the 1949 downturn for purposes of comparison. Without implying any fundamental similarity between the two situations, either in terms of causal factors or prognosis, it may be useful to indicate parallels and differences.

The current downturn, like the one in late 1948 and 1949, has been concentrated almost entirely in manufacturing activity. In manufacturing, however, there have been some important contrasts. The 1949 recession began in the soft goods field and did not appear in durables until several months later. The first industry affected was textiles, in which employment started to decline contraseasonally in

September 1948. By the late fall of 1948, the weakening had spread to apparel and leather manufacturing, and in December, the downtrend first appeared in some of the durable goods industries—particularly machinery and fabricated metals. By the early months of 1949, most manufacturing industries were laying off workers. However, the automobile industry scarcely felt the 1949 recession. Declines were relatively small in petroleum and coal products, chemicals, paper, food processing, and stone, clay, and glass products. Printing was the only manufacturing industry which continued to expand.

In contrast, more manufacturing industries have been affected in the current period than in late 1948. Almost all manufacturing industries have declined somewhat, but in soft goods lines, except for textiles, the reductions have been small. The automobile industry has been particularly affected.

A comparison of developments in the latter part of 1948 with the same calender months of 1953 shows that the drop this peak year was very much greater, with all of the differences showing up in the durable goods sector, largely because the general downturn in 1948 began later in the year. The whole drop after 5 months of decline in 1948, i. e., from the last peak month—October 1948—through the following months, was not much different from the drop in the 5 months from July 1953 peak through December.

Effects of the 1949 recession on employment in industries outside of the manufacturing field were generally slight or nonexistent. Some reduction occurred in transportation, which is closely associated with manufacturing. A slight softening occurred in trade employment late in 1949, long after the rest of the economy had slackened, but construction, mining, finance, and service all continued at high levels. In the present downturn, transportation is the only nonmanufacturing industry which has weakened so far, although coal mining has been declining for the past several years due to adverse long-run factors.

TABLE 1.—*Employees in nonagricultural establishments, by industry division—Annual averages and selected months, 1947–53*

[In thousands]

Period	Total	Mining	Contract construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Service and miscellaneous	Government
1947									
Average	43,438	943	1,982	15,290	4,122	9,196	1,641	4,807	5,456
June	43,299	950	2,084	15,065	4,176	9,057	1,646	4,867	5,454
December	45,005	976	2,031	15,530	4,179	10,092	1,667	4,837	5,693
1948									
Average	44,382	982	2,169	15,321	4,141	9,519	1,711	4,925	5,614
June	44,345	1,009	2,293	15,146	4,182	9,416	1,731	5,004	5,564
December	45,509	996	2,206	15,191	4,159	10,314	1,715	4,924	6,004
1949									
Average	43,295	918	2,165	14,178	3,949	9,513	1,736	5,000	5,837
June	43,108	954	2,215	13,906	4,006	9,413	1,741	5,071	5,802
December	44,066	921	2,098	14,066	3,890	10,231	1,748	4,991	6,121
1950									
Average	44,696	889	2,333	14,967	3,977	9,645	1,796	5,098	5,992
June	44,510	929	2,430	14,733	3,984	9,534	1,807	5,185	5,908
December	47,296	924	2,422	15,895	4,122	10,556	1,816	5,089	6,472
1951									
Average	47,202	913	2,588	16,082	4,166	10,013	1,861	5,207	6,373
June	47,339	922	2,706	16,099	4,187	9,950	1,871	5,302	6,302
December	48,606	908	2,536	16,092	4,202	10,888	1,886	5,187	6,907
1952									
Average	47,993	872	2,572	16,209	4,220	10,251	1,957	5,280	6,633
June	47,418	816	2,690	15,624	4,225	10,144	1,972	5,360	6,587
December	50,140	870	2,497	16,952	4,293	11,218	1,978	5,237	7,095
1953									
Average [1]	49,146	832	2,537	17,009	4,275	10,475	2,032	5,315	6,671
June	49,416	835	2,608	17,162	4,315	10,415	2,046	5,397	6,638
December [1]	49,619	812	2,481	16,440	4,230	11,310	2,055	5,268	7,023

[1] Based on preliminary data.

TABLE 2.—*Total employment in manufacturing industries, by major industry group—Annual averages and selected months, 1947–53*

[In thousands]

Period	Manufacturing	Durable goods	Nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures
1947: Average	15,290	8,372	6,918	26.6	842	340
June	15,065	8,369	6,696	27.1	855	331
December	15,530	8,457	7,073	27.3	826	362
1948: Average	15,321	8,312	7,010	28.1	815	350
June	15,146	8,197	6,949	28.2	808	341
December	15,191	8,251	6,940	27.9	782	343
1949: Average	14,178	7,473	6,705	25.8	738	321
June	13,906	7,394	6,512	26.0	750	304
December	14,066	7,329	6,737	24.7	746	341
1950: Average	14,967	8,085	6,882	29.6	805	369
June	14,733	8,035	6,698	27.9	818	360
December	15,895	8,828	7,067	37.0	838	388
1951: Average	16,082	9,071	7,011	77.0	834	361
June	16,099	9,138	6,961	66.1	870	347
December	16,092	9,174	6,918	125.3	793	357
1952: Average	16,209	9,262	6,946	166.4	782	361
June	15,624	8,833	6,791	168.3	796	350
December	16,952	9,856	7,096	178.6	772	383
1953: Average [1]	17,009	9,951	7,058	197.9	767	374
June	17,162	10,121	7,041	206.6	800	372
December [1]	16,440	9,538	6,902	195.2	720	361

Period	Durable goods: Stone, clay, and glass products	Durable goods: Primary metal industries	Durable goods: Fabricated metal products	Durable goods: Machinery (except electrical)	Durable goods: Electrical machinery	Durable goods: Transportation equipment
1947: Average	505	1,231	977	1,529	918	1,275
June	507	1,238	968	1,525	910	1,299
December	511	1,235	992	1,544	923	1,296
1948: Average	516	1,243	967	1,528	871	1,270
June	521	1,235	933	1,540	856	1,223
December	517	1,260	963	1,504	856	1,284
1949: Average	482	1,092	869	1,308	767	1,210
June	479	1,126	842	1,281	729	1,221
December	475	1,101	864	1,227	779	1,106
1950: Average	513	1,200	973	1,354	877	1,264
June	515	1,196	962	1,343	846	1,295
December	546	1,291	1,070	1,498	994	1,399
1951: Average	551	1,313	1,060	1,601	1,005	1,510
June	560	1,327	1,072	1,622	996	1,522
December	537	1,318	1,039	1,652	1,043	1,564
1952: Average	528	[2] 1,227	1,046	1,642	1,068	1,675
June	527	[2] 861	1,003	1,657	1,034	1,691
December	539	1,331	1,126	1,688	1,167	1,863
1953: Average [1]	541	1,321	1,146	1,666	1,191	1,914
June	548	1,346	1,168	1,698	1,195	1,951
December [1]	531	1,249	1,084	1,597	1,155	1,816

See p. 273 for footnotes.

TABLE 2.—*Total employment in manufacturing industries, by major industry group—Annual averages and selected months, 1947–53*—Continued

Period	Durable goods: Instruments and related products	Durable goods: Miscellaneous manufacturing industries	Nondurable goods: Food and kindred products	Nondurable goods: Tobacco manufactures	Nondurable goods: Textile-mill products	Nondurable goods: Apparel and other finished textile products
1947: Average	265	463	1,545	118	1,335	1,132
June	268	441	1,487	105	1,296	1,068
December	263	478	1,538	119	1,379	1,190
1948: Average	260	465	1,542	114	1,368	1,169
June	257	455	1,539	105	1,386	1,134
December	258	456	1,503	116	1,327	1,168
1949: Average	237	424	1,516	109	1,223	1,154
June	235	401	1,500	101	1,170	1,086
December	232	433	1,472	111	1,270	1,178
1950: Average	248	453	1,523	103	1,292	1,184
June	240	432	1,500	91	1,258	1,113
December	277	490	1,507	107	1,346	1,211
1951: Average	292	465	1,544	104	1,273	1,187
June	293	464	1,529	91	1,291	1,143
December	302	443	1,494	113	1,226	1,189
1952: Average	310	456	1,539	107	1,202	1,191
June	305	441	1,531	94	1,162	1,130
December	326	485	1,505	118	1,243	1,239
1953: Average [1]	332	500	1,543	105	1,199	1,216
June	335	502	1,527	93	1,220	1,200
December [1]	331	500	1,498	108	1,133	1,197

Period	Nondurable goods: Paper and allied products	Nondurable goods: Printing, publishing, and allied industries	Nondurable goods: Chemicals and allied products	Nondurable goods: Products of petroleum and coal	Nondurable goods: Rubber products	Nondurable goods: Leather and leather products
1947: Average	465	711	694	239	270	409
June	462	710	673	239	265	391
December	472	727	705	246	269	428
1948: Average	473	729	700	248	257	409
June	468	725	686	252	254	400
December	480	744	708	245	254	395
1949: Average	455	730	663	240	230	386
June	441	728	640	240	227	379
December	464	737	659	236	230	380
1950: Average	485	738	682	238	246	392
June	480	734	668	232	242	380
December	515	757	718	246	265	395
1951: Average	512	756	743	253	263	377
June	518	755	739	255	265	377
December	504	767	748	254	264	359
1952: Average	506	763	742	254	262	382
June	502	760	729	247	261	376
December	527	781	751	261	275	398
1953: Average [1]	533	782	755	261	271	387
June	536	780	753	264	276	390
December [1]	537	798	747	258	256	371

[1] Based on preliminary data.
[2] Data reflect work stoppage.

TABLE 3.—*Total employment in selected manufacturing industries for each November 1950–53*

[In thousands]

Industry	November 1953 [1]	November 1952	November 1951	November 1950
Footwear (except rubber)	239.8	249.6	221.5	248.4
Blast furnaces, steel works, and rolling mills	634.5	645.1	634.2	630.3
Agricultural machinery and tractors	142.0	169.7	199.3	172.8
Metalworking machinery	281.8	279.4	274.4	226.8
Communication equipment	531.0	518.8	429.6	409.7
Automobiles	870.5	887.9	784.8	873.4
Aircraft and parts	726.5	694.5	547.3	329.9
Ship and boat building and repairing	144.9	155.9	129.7	90.3

[1] Subject to revision.

TABLE 4.—*Average weekly hours in manufacturing industries, by major industry group—Annual averages and selected months, 1947–53*

Period	Manufacturing	Durable goods	Nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures
1947: Average	40.4	40.6	40.1	41.5	41.8	41.6
June	40.3	40.7	39.9	41.7	42.5	41.5
December	41.3	41.6	40.8	43.0	42.4	42.8
1948: Average	40.1	40.5	39.6	41.6	41.5	41.1
June	40.2	40.5	39.8	41.6	42.4	40.6
December	40.1	40.7	39.3	41.4	41.0	41.2
1949: Average	39.2	39.5	38.8	40.0	40.6	40.1
June	38.8	39.2	38.5	39.7	40.7	39.0
December	39.8	40.1	39.5	40.7	41.3	42.2
1950: Average	40.5	41.2	39.7	41.8	41.0	41.9
June	40.5	41.3	39.5	40.7	41.6	41.8
December	41.4	42.2	40.5	42.5	41.4	42.3
1951: Average	40.7	41.6	39.5	43.6	40.8	41.2
June	40.7	41.7	39.4	42.4	41.8	40.3
December	41.2	42.2	39.8	45.1	40.8	42.1
1952: Average	40.7	41.5	39.6	42.9	41.2	41.5
June	40.5	41.2	39.5	43.5	42.3	40.9
December	41.7	42.5	40.5	41.7	41.4	42.8
1953: Average [1]	40.5	41.2	39.5	41.0	40.8	40.9
June	40.7	41.4	39.7	41.3	41.4	41.0
December [1]	40.1	40.8	39.2	40.7	40.3	40.8

[1] Based on preliminary data.

TABLE 4.—*Average weekly hours in manufacturing industries, by major industry group—Annual averages and selected months, 1947–53*—Continued

Period	Durable goods					
	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery (except electrical)	Electrical machinery	Transportation equipment
1947: Average	41.1	39.8	40.8	41.4	40.3	39.3
June	41.4	40.2	40.6	41.5	40.0	39.2
December	41.5	40.5	42.0	42.2	41.3	41.3
1948: Average	40.9	40.1	40.6	41.2	40.1	39.0
June	41.1	40.0	40.6	41.5	40.0	38.6
December	41.0	40.3	41.0	41.1	40.5	40.1
1949: Average	39.8	38.3	39.6	39.5	39.5	39.2
June	39.4	37.6	39.2	39.2	39.0	39.5
December	40.3	39.4	40.5	39.7	40.6	38.9
1950: Average	41.2	40.8	41.4	41.8	41.1	41.0
June	41.1	40.8	41.5	41.5	40.5	42.0
December	42.2	42.3	42.4	43.7	42.0	41.4
1951: Average	41.5	41.5	41.7	43.4	41.3	40.9
June	41.7	41.8	41.8	43.4	41.3	40.5
December	41.3	42.2	42.3	44.0	41.8	41.7
1952: Average	41.1	40.7	41.6	42.8	41.1	41.4
June	41.1	40.0	40.8	42.6	40.7	40.8
December	41.5	41.8	43.3	43.5	42.1	42.7
1953: Average [1]	40.9	40.9	41.7	42.3	40.8	41.1
June	41.1	41.4	42.0	42.2	40.8	41.2
December [1]	40.7	40.2	41.5	42.1	40.4	40.1

Period	Durable goods		Nondurable goods			
	Instruments and related products	Miscellaneous manufacturing industries	Food and kindred products	Tobacco manufactures	Textile-mill products	Apparel and other finished textile products
1947: Average	40.3	40.8	43.0	38.9	39.6	36.3
June	40.4	40.2	43.2	38.1	38.7	36.0
December	40.7	42.0	43.4	39.9	41.1	37.1
1948: Average	40.1	40.9	42.1	38.4	39.2	36.2
June	40.2	40.9	42.7	37.9	39.5	35.9
December	40.0	41.0	42.1	38.4	38.4	35.7
1949: Average	39.6	39.9	41.6	37.3	37.7	35.8
June	39.2	39.4	41.7	38.1	36.3	35.4
December	40.0	40.9	41.6	38.3	39.8	35.9
1950: Average	41.2	41.0	41.6	38.1	39.6	36.4
June	40.7	40.5	41.8	38.4	38.7	35.8
December	42.6	41.7	42.4	39.1	40.8	36.5
1951: Average	42.1	40.9	41.9	38.5	38.8	35.9
June	42.1	40.8	41.9	38.1	38.6	35.2
December	42.5	41.3	42.2	39.3	39.3	36.0
1952: Average	41.9	41.0	41.6	38.4	39.1	36.5
June	41.5	40.2	42.1	38.7	38.4	36.1
December	42.8	42.3	42.1	39.2	40.8	37.3
1953: Average [1]	41.4	40.8	41.2	38.0	39.1	36.4
June	41.5	40.9	41.7	37.0	39.5	36.4
December [1]	41.5	40.9	41.2	39.0	38.4	35.8

[1] Based on preliminary data.

TABLE 4.—*Average weekly hours in manufacturing industries, by major industry group—Annual averages and selected months, 1947–53*—Continued

Period	Nondurable goods					
	Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1947: Average	43.1	40.1	41.5	40.7	39.8	38.6
June	43.0	39.8	41.4	41.2	39.2	38.3
December	43.7	40.4	42.0	40.9	41.0	39.0
1948: Average	42.8	39.3	41.5	40.7	39.0	37.2
June	42.8	39.1	41.5	40.8	39.7	37.0
December	42.6	39.6	41.8	40.4	38.5	37.1
1949: Average	41.7	38.7	41.0	40.4	38.3	36.6
June	40.7	38.7	40.8	40.2	38.2	36.5
December	42.9	39.3	41.6	39.9	39.2	37.1
1950: Average	43.3	38.8	41.5	40.9	40.9	37.6
June	43.0	38.7	41.4	41.0	41.4	37.2
December	44.5	39.8	42.1	41.2	41.6	38.3
1951: Average	43.1	38.8	41.6	40.9	40.6	36.9
June	43.1	38.8	41.6	40.7	41.9	36.5
December	42.8	39.4	41.7	41.2	41.2	37.7
1952: Average	42.8	38.8	41.2	40.6	40.7	38.4
June	42.5	38.8	41.1	40.7	40.9	38.2
December	44.0	39.5	41.7	40.6	41.9	39.6
1953: Average [1]	43.0	38.9	41.4	40.8	40.3	37.7
June	43.1	38.8	41.4	40.8	40.7	38.2
December [1]	42.9	39.2	41.4	40.3	39.0	37.6

[1] Based on preliminary data.

TABLE 5.—*Indexes of production-worker aggregate weekly man-hours, by major industry group—Annual averages and selected months, 1947–53*

[1947-49=100]

Period	Manufacturing	Durable goods	Nondurable goods	Durable goods		
				Ordnance and accessories	Lumber and wood products (except furniture)	Furniture and fixtures
1947: Average	104.8	106.1	103.1	101.2	107.0	103.3
June	102.7	106.2	98.5	104.2	110.8	100.0
December	108.8	110.0	107.5	108.9	106.2	113.7
1948: Average	103.2	104.1	102.1	107.6	102.7	104.6
June	102.2	102.9	101.5	108.5	104.3	100.1
December	102.0	103.8	99.9	105.7	96.9	102.6
1949: Average	92.0	89.7	94.7	91.1	90.3	92.1
June	89.1	87.9	90.6	91.1	91.8	84.6
December	92.9	89.5	97.0	86.4	92.8	103.7
1950: Average	101.1	102.7	99.2	107.4	99.6	111.5
June	99.2	102.4	95.3	98.3	102.8	108.3
December	110.3	115.7	104.0	135.7	104.9	118.7
1951: Average	108.3	115.6	99.5	290.4	102.4	105.8
June	108.4	117.0	98.3	242.3	109.8	99.0
December	108.7	117.4	98.3	476.8	96.8	106.8
1952: Average	107.6	115.7	97.9	582.9	96.1	106.1
June	102.3	108.5	94.9	597.4	100.3	101.0
December	115.6	126.8	102.3	616.0	95.4	117.0
1953: Average [1]	112.1	123.4	98.5	674.1	93.2	108.4
June	113.7	126.4	98.6	707.6	99.1	107.6
December [1]	106.2	115.7	95.0	652.7	86.4	103.7

See p. 278 for footnotes.

TABLE 5.—*Indexes of production-worker aggregate weekly man-hours, by major industry group—Annual averages and selected months, 1947–53*—Continued

Period	Durable goods					
	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery (except electrical)	Electrical machinery	Transportation equipment
1947: Average	102.8	105.4	106.7	108.3	111.1	102.9
June	103.6	106.8	104.9	108.4	108.6	104.7
December	105.2	107.3	111.4	111.6	114.3	110.5
1948: Average	103.9	106.6	103.8	106.6	102.9	100.9
June	105.6	105.8	99.9	108.3	100.1	96.7
December	104.4	108.8	104.3	104.4	102.0	105.1
1949: Average	93.3	88.0	89.4	85.1	86.0	96.3
June	91.4	89.3	85.4	82.5	79.2	97.8
December	93.5	91.7	91.0	79.5	90.6	86.5
1950: Average	102.9	104.1	106.5	94.0	107.6	106.1
June	103.3	103.8	105.9	92.8	101.7	112.0
December	112.7	116.6	120.8	110.2	127.3	119.4
1951: Average	111.6	115.7	115.8	116.5	123.6	124.5
June	114.0	118.2	117.6	118.6	122.3	124.7
December	107.3	117.6	114.1	121.7	129.2	129.0
1952: Average	104.5	[2] 104.2	112.4	116.7	129.5	136.5
June	103.9	[2] 67.0	105.2	117.4	122.9	136.5
December	107.8	117.0	126.9	122.2	146.6	158.4
1953: Average [1]	106.3	113.2	124.0	115.9	144.0	155.5
June	108.1	116.5	127.6	118.4	145.0	159.2
December [1]	103.5	104.5	114.8	109.1	136.0	141.0

Period	Durable goods		Nondurable goods			
	Instruments and related products	Miscellaneous manufacturing industries	Food and kindred products	Tobacco manufactures	Textile-mill products	Apparel and other finished textile products
1947: Average	107.5	104.6	103.9	105.9	104.5	99.6
June	108.8	98.0	99.5	91.8	98.8	92.6
December	107.5	111.4	104.2	110.0	112.2	107.0
1948: Average	103.0	104.2	100.0	101.0	105.7	101.6
June	102.0	101.6	100.8	91.3	107.9	97.5
December	101.0	102.1	96.7	102.0	100.1	99.9
1949: Average	89.5	91.2	96.1	93.1	89.9	98.8
June	87.9	84.6	95.0	87.0	82.7	91.5
December	88.6	95.0	92.6	96.0	99.0	101.3
1950: Average	97.4	101.3	95.2	89.2	100.1	103.0
June	93.3	95.1	93.1	78.2	95.1	94.8
December	113.6	112.5	95.4	94.2	107.6	105.9
1951: Average	117.5	102.9	95.7	91.5	96.1	101.8
June	117.9	102.3	94.2	77.9	97.1	95.7
December	122.1	98.0	92.2	102.1	93.4	102.1
1952. Average	122.7	100.1	93.9	93.3	91.2	103.7
June	119.3	94.5	94.1	81.5	86.4	96.7
December	132.5	110.6	92.0	105.3	98.5	110.5
1953: Average [1]	129.1	109.5	92.5	91.2	90.7	105.5
June	131.1	110.0	91.4	78.1	93.3	103.8
December [1]	128.7	109.2	88.5	95.6	84.0	102.3

See p. 278 for footnotes.

TABLE 5.—*Indexes of production-worker aggregate weekly man-hours, by major industry group—Annual averages and selected months, 1947–53*—Continued

Period	Nondurable goods					
	Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1947: Average	102.6	101.4	103.3	99.0	109.8	105.8
June	101.5	100.3	99.0	100.4	105.4	100.2
December	105 5	104 8	106.2	102.4	113.3	112.1
1948: Average	102.3	100.5	102 6	102.7	102.0	100.8
June	101.3	99.6	100.0	105.4	102.3	97.6
December	103.3	103.2	103.9	100.1	98.7	96.5
1949: Average	95.1	98.0	94.1	98.3	88.1	93.4
June	89.6	98.0	89.3	98.5	85 9	90.9
December	100.3	100.3	94.9	95.2	90.6	93.2
1950: Average	105.4	99.5	97.2	97.3	101.9	97.8
June	103.8	98.6	94.3	95.6	101.4	93.5
December	115.5	105.0	103.9	101.5	112.9	100.8
1951: Average	110.0	101.3	104 3	102 1	108.1	92.1
June	111.6	101.2	103 6	103.3	112.4	91.2
December	107.1	104.2	104.4	101.3	109.5	89.2
1952: Average	106.3	101.4	100.6	98.2	106.6	97.1
June	104.5	100.9	97.7	95.5	106.2	94.9
December	114.0	105.4	102.3	100.4	115.5	104.6
1953: Average [1]	112.3	103.2	100 8	101.1	108 8	96.5
June	112 8	102 8	100.5	102.6	112.6	98.7
December [1]	112.5	105.6	98.6	97.5	98.5	91.6

[1] Based on preliminary data.
[2] Data reflect work stoppage.

TABLE 6.—*Labor turnover rates in manufacturing industries for each December 1947–53*

[Per 100 employees]

Period	Total accession	Separation			
		Total	Quit	Layoff	Other [1]
1947: December	3.6	3.7	2.3	0 9	0.5
1948: December	2 7	4.3	1.7	2.2	.4
1949. December	3.2	3.2	.9	2.0	.3
1950. December	3.0	3 6	1.7	1.3	.6
1951: December	3.0	3.5	1.4	1.5	.6
1952: December	3 3	3.4	1.7	1.0	.6
1953: December [2]	1.9	4.3	1.1	2.9	.4

[1] Includes discharge, miscellaneous, and military rates.
[2] Preliminary.

TABLE 7.—*Total employment in manufacturing industries for selected months, by State*

[In thousands]

State	December 1953 [1]	December 1952	Percent change	June 1953	June 1950	Percent change
Alabama	231.1	236.2	−2.2	233.8	211.9	+10.3
Arizona	25.9	29.8	−13.1	28.5	15.7	+81.5
Arkansas	82.6	83.4	−1.0	82.6	76.7	+7.7
California	1,032.1	1,029.0	+.3	1,057.8	730.2	+44.9
Colorado	68.0	70.3	−3.3	68.1	56.6	+20.3
Connecticut	451.8	452.0	(2)	460.7	366.8	+25.6
Delaware	58.5	60.4	−3.2	62.4	50.7	+23.1
District of Columbia	17.5	17.6	−.6	17.2	16.8	+2.4
Florida	126.3	124.2	+1.7	117.4	91.9	+27.7
Georgia	311.6	314.2	−.8	315.7	276.3	+14.3
Idaho	20.4	22.4	−8.9	24.7	23.3	+6.0
Illinois	1,264.0	1,322.4	−4.4	1,338.2	1,178.9	+13.5
Indiana	620.8	653.8	−5.1	661.1	577.6	+14.5
Iowa	165.1	177.3	−6.9	172.9	152.3	+13.5
Kansas	131.5	142.7	−7.9	142.0	91.6	+55.0
Kentucky	161.8	163.0	−.7	160.7	136.2	+18.0
Louisiana	162.4	157.4	+3.2	157.8	138.0	+14.3
Maine	107.4	118.6	−9.5	120.9	111.5	+8.4
Maryland	261.6	264.7	−1.2	275.9	223.6	+23.4
Massachusetts	700.9	736.6	−4.8	733.5	690.9	+6.2
Michigan	1,175.3	1,207.8	−2.7	1,259.6	1,095.1	+15.0
Minnesota	216.2	217.0	−.4	218.3	190.5	+14.6
Mississippi	94.9	98.6	−3.8	98.2	85.3	+15.1
Missouri	403.9	406.3	−.6	420.7	343.2	+22.6
Montana	18.3	18.9	−3.2	19.2	19.0	+1.1
Nebraska	61.2	60.6	+1.0	62.1	50.0	+24.2
Nevada	4.4	4.3	+2.3	4.3	3.4	+26.5
New Hampshire	80.3	83.2	−3.5	82.4	76.5	+7.7
New Jersey	807.9	849.2	−4.9	842.9	730.4	+15.4
New Mexico	15.6	16.1	−3.1	16.5	12.8	+28.9
New York	1,973.8	2,010.4	−1.8	1,982.6	1,763.8	+12.4
North Carolina	437.5	447.6	−2.3	431.8	401.8	+7.5
North Dakota	6.4	6.6	−3.0	6.4	6.1	+4.9
Ohio	1,370.4	1,407.8	−2.7	1,435.3	1,187.0	+20.9
Oklahoma	85.3	83.3	+2.4	84.8	66.4	+27.7
Oregon	131.0	135.6	−3.4	149.7	147.0	+1.8
Pennsylvania	1,460.7	1,519.5	−3.9	1,529.8	1,375.3	+11.2
Rhode Island	137.0	150.2	−8.8	147.5	140.3	+5.1
South Carolina	221.7	227.3	−2.5	226.8	204.7	+10.8
South Dakota	11.7	12.4	−5.7	12.2	11.5	+6.1
Tennessee	281.2	287.6	−2.2	292.8	241.7	+21.1
Texas	428.9	435.6	−1.5	444.1	345.2	+28.7
Utah	31.6	31.2	+1.3	31.9	27.2	+17.3
Vermont	39.3	39.3	0	40.5	34.9	+16.0
Virginia	249.8	260.8	−4.2	256.0	218.7	+17.1
Washington	188.8	188.1	+.4	201.3	175.3	+14.8
West Virginia	133.9	137.8	−2.8	137.6	129.3	+6.4
Wisconsin	446.8	475.0	−5.9	471.0	420.5	+12.0
Wyoming	6.8	6.5	+4.6	6.4	6.1	+4.9

1 Preliminary.
2 Less than 0.1.

DESCRIPTION OF BUREAU OF LABOR STATISTICS EMPLOYMENT, HOURS, AND LABOR TURNOVER PROGRAMS

The following pages briefly describe the concepts, definitions, and methodology used in the preparation of the Bureau of Labor Statistics employment, hours, and labor turnover series. Because of the comprehensive nature of these data, and, as a consequence, their many uses, a more detailed explanation is provided in the monthly publications "Employment and Payrolls Monthly Statistical Report" and "Hours and Earnings Industry Report."

SECTION A—EMPLOYMENT AND HOURS

A-1—Purpose and scope of the BLS employment statistics program

Employment and hours statistics for nonfarm industries are part of the broad program of the Bureau of Labor Statistics to provide timely, comprehensive, accurate, and detailed information for the use of businessmen, Government officials, legislators, labor unions, research workers, and the general public. Current employment statistics furnish a basic indicator of changes in economic activity in various sectors of the economy and are widely used in following business developments and in making decisions in fields of marketing, personnel, plant location, and Government policy. The BLS employment statistics program, providing data used in making official indexes of production, productivity, and national income, forms an important part of the Federal statistical system.

The BLS publishes monthly the national total of employees in nonagricultural establishments and average weekly hours for several hundred industries; in addition, for State and local areas, monthly data are published on employment by industry division and average weekly hours for manufacturing. State and area data are compiled by cooperating State agencies.

A–2—Definition of employment and man-hours

BLS employment statistics represent the number of persons employed in establishments in nonagricultural industries in the continental United States during a specified payroll period. Employment data for nongovernmental establishments refer to persons who worked during, or received pay for, any part of the pay period ending nearest the 15th of the month. Current data for Federal Government establishments generally refer to persons who worked on, or received pay for, the last day of the month; for State and local government, persons who received pay for any part of the period ending on, or immediately prior to, the last day of the month.

In addition to total employment, the monthly employment schedule provides the following information required to compute averages of hours:

(1) The number of full- and part-time production workers or nonsupervisory employees who worked during, or received pay for, any part of the pay period reported.

(2) Total man-hours actually worked or paid for by full- and part-time production or nonsupervisory workers, including hours paid for holidays, sick leave, and vacations taken.

The workweek information relates to average hours worked or paid for, and is somewhat different from standard or scheduled hours. Normally, average weekly hours are less than the hours of workers who are on the payroll during the whole of the workweek because of such factors as absenteeism, labor turnover, part-time work, and stoppages. Group averages further reflect changes in the workweek of component industries.

A–3—Collection of establishment reports

The BLS, with the cooperation of State agencies, collects current employment information for most industries by means of "shuttle" schedules mailed monthly to individual establishments. State agencies mail most of the forms and when returned, examine them for consistency, accuracy, and completeness. States use the information to prepare State and area seris and send the schedules to the BLS Division of Manpower and Employment Statistics for use in preparing the national series. The same form is returned each month to the reporting establishment to be completed. This "shuttle" schedule, which has been used by BLS for more than 20 years, is designed to assist firms to report consistently, accurately, and with a minimum of cost.

An establishment is defined as a single physical location, such as a factory, mine, or store where business is conducted. In the case of a company with several plants or establishments, the BLS endeavors to obtain separate reports from each business unit which maintains separate payroll records, since each may be classified in a different industry.

A–4—Coverage of establishment reports

The Bureau of Labor Statistics obtains monthly reports from approximately 155,000 establishments. For the 8 divisions comprising all nonagriculture employment, the BLS sample covers more than 50 percent of total employment in 4. For manufacturing, employing the largest number of workers, the sample covers almost 70 percent of total employment. Since some firms do not report man-hour information, estimates of hours are based on a slightly smaller sample than those for employment.

A–5—Classification of establishment reports

To present meaningful tabulations of employment and hours data, establishments are classified into industries on the basis of the principal product or activity determined from information on annual sales volume for a recent year. In the case of an establishment making more than one product, the entire employment of the plant is included under the industry indicated by the most important product. The titles and descriptions of industries presented in the 1945 Standard Industrial Classification Manual, Vol. I (U. S. Bureau of the Budget, Washington, D. C.) are used for classifying reports from manufacturing establishments; the 1942 Industrial Classification Code (U. S. Social Security Board) for reports from nonmanufacturing establishments.

A-6—Benchmark data and estimating method

Basic sources of benchmark information are periodic tabulations of employment data, by industry, compiled from State and Federal social insurance programs. For industries not covered by either of the two programs, benchmarks are compiled from special establishment censuses. Establishments are classified into the same industrial groupings for benchmark purposes as they are for monthly reporting. The estimating procedure is outlined below:

The first step is to compute employment in the industry for the month following the benchmark period. The total for the benchmark period (say March) is multiplied by the percent change over the month of total employment in a group of establishments reporting for both March and April. Thus, if firms in the BLS sample report 30,000 employees in March and 31,200 in April, the percentage increase would be 4 percent (1,200 divided by 30,000). If the benchmark in March is 40,000, the total in April would be 104 percent of 40,000 or 41,600.

Figures for subsequent months are computed by carrying forward the totals for the previous month according to the method described above. When annual benchmark data become available, the BLS employment figures for the benchmark period are compared with the total count. If differences are found, the BLS series are adjusted to agree with the benchmark count.

SECTION B—LABOR TURNOVER

B-1—Definition of labor turnover

Labor turnover refers to the gross movement of wage and salary workers into and out of employment status with respect to individual firms. This movement is subdivided into two broad types: accessions (new hires and rehires) and separations (terminations of employment initiated by either the employer or the employee). Separations include: Quits, discharges, layoffs, and a miscellaneous group which includes military separations. Each type of action is cumulated for a calendar month and expressed as a rate per 100 employees. Rates of accession and separation are shown separately.

B-2—Source of data and sample coverage

Labor turnover data are obtained each month from a sample of establishments by means of a mail questionnaire. Schedules are received from approximately 7,100 cooperating establishments in the manufacturing, mining, and communication industries. The following manufacturing industries are excluded from the labor turnover sample: printing, publishing, and allied industries; canning and preserving fruits, vegetables, and sea foods; women's and misses' outerwear; and fertilizer.

B-3—Method of computation

To compute turnover rates for individual industries, the total number of each type of action (accessions, quits, etc.) reported for a calendar month by the sample establishments in each industry is divided by the total number of employees (both wage and salary workers) reported by these establishments who worked during, or received pay for, any part of the pay period ending nearest the 15th of that month. To obtain the rate, the result is multiplied by 100.

For example, in an industry sample, the total number of employees who worked during, or received pay for, the week of January 10–16 was reported as 25,498. During the period January 1–31 a total of 284 employees in all reporting firms quit. The quit rate for the industry is:

$$\frac{284}{25{,}498}\times 100=1.1$$

To compute turnover rates for industry groups, the rates for the component industries are weighted by the estimated employment. Rates for the durable and nondurable goods subdivisions and manufacturing division are computed by weighting the rates of major industry groups by the estimated employment.

B-4—Industry classification

See Section A-5.

INDEXES OF AGGREGATE MAN-HOURS IN INDUSTRIAL AND CONSTRUCTION ACTIVITY—SUPPLEMENTARY DATA SUPPLIED BY COMMISSIONER EWAN CLAGUE

DESCRIPTION OF AGGREGATE WEEKLY MAN-HOURS SERIES

The Bureau of Labor Statistics, as part of its regular program, collects data on employment and man-hours. These employment and man-hour data have now been used to develop estimates and indexes of aggregate weekly man-hours for the mining, manufacturing, and contract construction divisions.

These 3 divisions account for approximately 40 percent of total nonagricultural employment. They represent those sectors of the economy which are engaged in the production of physical goods, and which are generally more sensitive to changing economic conditions. For the mining and manufacturing divisions the aggregate man-hours relate to production workers; for contract construction to construction workers.

The aggregate weekly man-hour figures represent the product of average weekly hours and production-worker or construction-worker employment. The indexes are derived from these man-hour aggregates, with the monthly average for 1947–49=100.0. For manufacturing, aggregates and indexes are shown for the total, the durable and nondurable goods subdivisions, and for the 21 major groups. Totals are shown for mining and construction.

The aggregate man-hours represent total man-hours for which pay was received by full- and part-time production or construction workers, including hours paid for holidays, sick leave, and vacations taken. The man-hours and employment are for 1 week of the pay period ending nearest the 15th of the month, and may not be typical of the entire month. The average weekly hours, used as a factor in computing aggregate man-hours, differ from scheduled hours because of such factors as absenteeism, labor turnover, part-time work, and stoppages.

The aggregates are a composite measure of the trends in employment and hours. Thus, the aggregates and indexes provide a more complete measure of the level of industrial activity than the employment or average weekly hours series alone, since the level of production is dependent upon both the number of workers employed and the length of their workweek. An important attribute of the BLS data is that such estimates can be made for various industrial classifications.

TABLE 1.—*Index of aggregate man-hours in industrial and construction activity* [1]

[1947–49=100]

Year and month	Total [2]	Manufacturing	Contract construction	Mining
1947: Average	103.6	104.8	94.6	105.1
1948: Average	103.4	103.2	103.4	105.4
1949: Average	93.0	92.0	102.0	89.5
1947: January	102.8	105.5	80.0	110.3
February	102.1	105.4	77.7	105.3
March	102.6	105.3	81.8	106.3
April	101.1	103.7	86.3	94.3
May	101.3	102.1	92.5	108.9
June	102.9	102.7	100.5	111.0
July	100.5	100.6	103.4	92.9
August	103.8	103.3	107.2	104.9
September	106.4	106.4	106.6	105.3
October	106.7	106.9	105.4	107.5
November	105.4	106.5	97.2	105.1
December	107.4	108.8	96.4	109.2
1948: January	104.1	105.8	89.6	109.2
February	101.5	104.1	81.3	104.6
March	102.8	104.8	86.7	108.6
April	99.4	101.2	95.0	82.3
May	101.0	100.1	102.2	110.4
June	103.9	102.2	111.9	111.2
July	102.8	101.4	115.1	97.8
August	106.1	104.2	117.3	111.8
September	106.6	105.2	116.2	107.4
October	106.0	104.7	113.3	109.5
November	103.6	103.0	106.6	104.8
December	102.7	102.0	105.4	107.7
1949: January	97.5	97.4	94.2	106.2
February	95.6	96.2	88.9	100.9
March	93.7	94.1	89.2	98.4

See footnotes at end of table.

TABLE 1.—*Index of aggregate man-hours in industrial and construction activity* [1]—Continued

[1947-49=100]

Year and month	Total [2]	Manufacturing	Contract construction	Mining
April	91.3	90.1	95.0	101.3
May	90.8	88.3	103.1	101.6
June	91.2	89.1	106.8	89.3
July	90.5	88.1	110.5	82.6
August	94.0	91.8	114.2	82.6
September	96.1	94.7	111.5	84.2
October	92.2	91.7	111.4	58.5
November	91.3	89.6	104.4	88.8
December	92.4	92.9	94.9	79.4
1950: Average	101.5	101.1	109.1	91.0
1951: Average	109.3	108.3	123.4	94.8
1952: Average	108.7	107.6	124.5	90.8
1950: January	90.2	92.1	84.6	73.6
February	88.6	92.3	79.5	53.1
March	92.3	93.1	83.7	99.4
April	93.8	93.5	95.8	94.5
May	97.0	96.0	106.1	93.3
June	101.0	99.2	116.7	94.8
July	102.4	100.1	122.1	93.6
August	109.6	107.6	129.5	97.3
September	110.3	108.9	126.1	97.5
October	112.2	110.7	128.9	99.1
November	110.4	109.3	123.9	96.9
December	110.0	110.3	112.7	99.1
1951: January	107.8	108.7	106.4	98.0
February	107.6	109.9	99.3	92.3
March	108.6	110.2	105.4	90.6
April	109.1	109.2	116.7	90.4
May	108.9	107.6	126.1	92.3
June	110.4	108.4	131.2	95.0
July	108.7	105.7	136.9	92.4
August	110.8	107.6	140.1	95.5
September	111.4	108.7	137.3	96.6
October	110.7	107.6	138.4	98.2
November	108.1	106.8	122.8	97.2
December	109.5	108.7	120.1	99.3
1952: January	106.4	106.5	109.5	98.7
February	106.5	106.8	110.5	94.4
March	105.9	106.6	106.4	94.5
April	104.2	103.7	115.2	88.1
May	105.2	103.6	122.8	91.0
June	104.8	102.3	133.7	80.2
July	101.8	98.7	135.6	75.7
August	110.4	107.3	139.6	94.7
September	115.0	112.5	140.4	97.2
October	114.9	113.6	136.0	89.4
November	113.8	113.6	124.3	93.0
December	114.9	115.6	119.9	93.0
1953: Average	----------	----------	----------	----------
1954: Average	----------	----------	----------	----------
1953: January	110.9	113.1	105.5	89.8
February	111.4	113.9	104.9	87.3
March	112.4	115.2	105.1	85.8
April	111.8	113.6	111.7	84.5
May	112.1	112.9	118.3	87.2
June	113.9	113.7	125.9	90.3
July	112.1	111.6	127.0	87.0
August	114.4	113.6	131.7	89.7
September	112.3	111.8	127.9	86.6
October	112.6	111.2	134.5	86.7
November [3]	108.4	107.8	124.1	83.4
December [3]	106.5	106.8	115.5	82.9
1954: January [3]	99.8	101.8	94.6	80.5

[1] Aggregate man-hours are for the weekly pay period ending nearest the 15th of the month and do not represent totals for the month. For manufacturing and mining industries, data refer to production and related workers. For contraction construction, the data relate to construction workers.

[2] Includes only the activities shown.

[3] Data are subject to revision.

TABLE 2.—*Aggregate man-hours in industrial and construction activity* [1]

[In millions]

Year and month	Total [2]	Manufacturing	Contract construction	Mining
1947: Average	618 7	517.2	66 9	34.6
1948: Average	617.4	509.6	73.1	34.7
1949: Average	555.8	454.2	72.1	29.5
1947: January	613 9	521.0	56.5	36.3
February	610.2	520.5	54.9	34.7
March	612.6	519.7	57.8	35.0
April	603.9	511.8	61.0	31.1
May	605.3	504.0	65.4	35.9
June	614.6	507.0	71.1	36.6
July	600.2	496.4	73.1	30.6
August	620.2	509.9	75.8	34.6
September	635 4	525.4	75.3	34.7
October	637.6	527.7	74.5	35.4
November	629.4	526.0	68.7	34.6
December	641.5	537.4	68.1	36 0
1948: January	621.7	522.3	63 4	36.0
February	606.0	514.1	57.5	34.4
March	614.3	517.2	61.3	35.8
April	593 6	499.4	67.1	27.1
May	603.0	494.4	72.2	36.4
June	620.4	504.6	79.1	36.6
July	614.0	500.4	81.4	32.2
August	634.0	514.3	82.9	36.8
September	636 7	519.2	82.1	35 4
October	632.9	516.8	80.1	36 1
November	618.6	508.7	75.4	34.5
December	613.7	503.7	74.5	35.5
1949: January	582.4	480.9	66.6	35.0
February	570 9	474.8	62.8	33.3
March	559.9	464.4	63.1	32 4
April	545.5	444.9	67.2	33.4
May	542.5	436.1	72.9	33 5
June	544.8	439.9	75.5	29.4
July	540.4	435.1	78.1	27.2
August	561.3	453.4	80.7	27 2
September	574 2	467.6	78.8	27.7
October	550 9	452.9	78.8	19 3
November	545.5	442.4	73.8	29.3
December	551 9	458.6	67.1	26.2
1950: Average	606 2	499.1	77.1	30.0
1951: Average	653.0	534.5	87.2	31.2
1952: Average	649.0	531.1	88.0	29.9
1950: January	538.8	454.8	59.8	24.2
February	529.3	455.6	56.2	17.5
March	551.3	459.4	59.2	32 7
April	560.3	461.5	67.7	31.1
May	579.7	474 0	75.0	30.7
June	603.3	489.6	82.5	31.2
July	611.5	494.4	86 3	30.8
August	654.6	531.0	91.5	32.0
September	659.0	537.8	89.1	32.1
October	670.3	546 5	91.1	32.7
November	659.3	539.8	87.6	31.9
December	657.1	544.7	79.7	32.7
1951: January	644.2	536.7	75.2	32.3
February	643.0	542.4	70.2	30.4
March	648.4	544.1	74.5	29.8
April	651.6	539.3	82.5	29.8
May	650.6	531.0	89.1	30.4
June	659.4	535.4	92.8	31.3
July	649.2	522.0	96.8	30.4
August	661.9	531.4	99.0	31.5
September	665.6	536.7	97.1	31.8
October	661.4	531.3	97.8	32.3
November	646.0	527.1	86.8	32.0
December	654.3	536.7	84.9	32.7
1952: January	635.6	525.6	77.4	32.5
February	636.4	527.2	78.1	31.1
March	632.6	526.2	75.2	31.1
April	622.6	512.1	81.5	29.0
May	628.2	511.4	86.8	30.0
June	626.1	505.2	94.5	26.4
July	608.2	487.4	95.9	24.9
August	659.7	529.8	98.6	31.2
September	686.8	555.6	99.2	32.0

See footnotes at end of table.

TABLE 2.—*Aggregate man-hours in industrial and construction activity*[1]—Con.

[In millions]

Year and month	Total [2]	Manufacturing	Contract construction	Mining
1952: October	686.5	560.9	96.1	29.5
November	679.5	561.0	87.9	30.6
December	686.2	570.8	84.8	30.6
1953: Average				
1954: Average				
1953: January	662.5	558.3	74.6	29.6
February	665.1	562.2	74.2	28.8
March	671.1	568.6	74.3	28.3
April	667.8	561.0	79.0	27.8
May	669.7	557.3	83.6	28.7
June	680.2	561.4	89.0	29.8
July	669.6	551.2	89.8	28.7
August	683.4	560.7	93.1	29.6
September	671.0	552.0	90.4	28.5
October	672.5	548.8	95.1	28.6
November [3]	647.6	532.4	87.7	27.5
December [3]	636.0	527.1	81.6	27.3
1954: January [3]	596.2	502.8	66.9	26.5

[1] Aggregate man-hours are for the weekly pay period ending nearest the 15th of the month and do not represent totals for the month. For manufacturing and mining industries, data refer to production and related workers. For contract construction, the data relate to construction workers.
[2] Includes only the activities shown.
[3] Data are subject to revision.

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

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*

[1947–49 average=100]

Period	Manufacturing	Total, durable goods	Total, nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures	Durable goods: Stone, clay, and glass products	Durable goods: Primary metal industries
1947	104.8	106.1	103.1	101.2	107.0	103.3	102.8	105.4
1948	103.2	104.1	102.1	107.6	102.7	104.6	103.9	106.6
1949	92.0	89.7	94.7	91.1	90.3	92.1	93.3	88.0
1950	101.1	102.7	99.2	107.4	99.6	111.5	102.9	104.1
1947								
January	105.5	107.0	103.8	98.8	101.6	101.6	101.9	105.8
February	105.4	107.4	103.1	99.9	105.4	104.1	100.0	105.8
March	105.3	108.1	102.0	101.3	103.5	102.7	102.4	107.1
April	103.7	107.4	99.2	100.8	106.0	100.2	103.3	107.2
May	102.1	105.4	98.1	102.4	109.5	99.5	101.4	105.4
June	102.7	106.2	98.5	104.2	110.8	100.0	103.6	106.8
July	100.6	101.0	100.0	101.2	107.1	95.3	99.5	101.0
August	103.3	102.3	104.5	85.7	111.0	100.1	103.0	103.3
September	106.4	105.1	108.0	102.6	108.9	103.5	103.2	104.0
October	106.9	106.8	107.0	105.0	108.5	108.5	105.0	105.3
November	106.5	107.0	106.0	104.0	105.4	110.2	105.0	105.7
December	108.8	110.0	107.5	108.9	106.2	113.7	105.2	107.3
1948								
January	105.8	107.2	104.2	106.4	102.0	112.9	99.5	107.0
February	104.1	104.9	103.2	107.3	98.8	112.1	98.5	106.4
March	104.8	106.5	102.7	109.5	101.1	110.1	102.8	107.8
April	101.2	103.5	98.4	108.4	97.3	104.3	103.7	104.0
May	100.1	101.9	98.0	108.3	99.7	101.1	104.9	105.4
June	102.2	102.9	101.5	108.5	104.3	100.1	105.6	105.8
July	101.4	101.4	101.4	107.9	106.5	97.6	101.2	103.6
August	104.2	103.7	104.7	105.5	110.6	101.1	107.3	106.6
September	105.2	103.4	107.2	107.0	106.4	103.4	105.7	106.3
October	104.7	105.8	103.3	108.4	106.4	106.7	107.8	109.2
November	103.0	104.5	101.3	108.3	102.3	103.7	105.0	108.7
December	102.0	103.8	99.9	105.7	96.9	102.6	104.4	108.8
1949								
January	97.4	99.1	95.3	104.9	89.0	93.9	97.8	106.9
February	96.2	96.9	95.3	105.1	85.0	92.9	97.2	105.1
March	94.1	94.3	93.8	101.2	87.2	91.1	95.3	101.4
April	90.1	90.9	89.2	90.9	87.7	87.1	92.5	96.7
May	88.3	88.0	88.7	95.1	90.8	84.1	92.8	92.2
June	89.1	87.9	90.6	91.1	91.8	84.6	91.4	89.3
July	88.1	85.4	91.4	86.8	87.7	82.4	87.8	84.2
August	91.8	87.2	97.4	80.7	92.0	89.6	92.4	85.6
September	94.7	89.7	100.7	82.5	91.6	96.0	92.6	86.1
October	91.7	84.4	100.4	82.5	94.8	100.4	93.8	50.8
November	89.6	83.6	96.8	85.7	93.4	98.9	92.6	65.7
December	92.9	89.5	97.0	86.4	92.8	103.7	93.5	91.7
1950								
January	92.1	89.7	95.0	84.4	82.1	101.4	90.1	92.6
February	92.3	89.8	95.3	87.9	85.0	105.6	91.5	94.2
March	93.1	91.4	95.0	91.3	90.2	107.0	92.6	92.8
April	93.5	94.7	92.0	93.6	92.9	106.6	96.0	98.8
May	96.0	99.0	92.4	95.6	97.8	106.4	100.2	100.8
June	99.2	102.4	95.3	98.3	102.8	108.3	103.3	103.8
July	100.1	102.1	97.9	103.8	103.2	106.2	102.3	104.0
August	107.6	108.8	106.1	110.6	110.3	117.2	108.8	108.1
September	108.9	110.4	107.2	120.3	109.3	119.5	108.5	110.7
October	110.7	114.4	106.3	130.0	110.6	120.6	114.5	113.1
November	109.3	113.8	104.0	137.7	106.6	119.9	114.7	113.7
December	110.3	115.7	104.0	135.7	104.9	118.7	112.7	116.6
1951	108.3	115.6	99.5	290.4	102.4	105.8	111.6	115.7
1952	107.6	115.7	97.9	582.9	96.1	106.1	104.5	[1] 104.2
1953								
1954								

See footnotes at end of table.

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*—Con.

[1947–49 average=100]

Period	Manufacturing	Total, durable goods	Total, nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures	Durable goods: Stone, clay, and glass products	Durable goods: Primary metal industries
1951								
January	108.7	113.9	102.5	145.9	100.4	115.0	110.6	115.6
February	109.9	115.8	102.8	161.8	99.8	116.9	109.7	114.5
March	110.2	117.4	101.6	175.4	97.3	118.2	113.1	116.6
April	109.2	117.9	99.0	201.5	104.5	111.5	114.7	117.2
May	107.6	116.8	96.6	224.5	107.0	103.5	114.1	116.3
June	108 4	117.0	98.3	242.3	109.8	99.0	114.0	118.2
July	105.7	112.1	98.2	293.4	100.7	95.6	111.1	114.3
August	107.6	113.7	100.5	334.0	105.0	98.4	112.7	114.6
September	108.7	114.8	101.5	366.9	103.4	99.8	111.9	115.1
October	107.6	115.5	98.3	414.7	104.3	101.7	112.1	114.5
November	106.8	115.3	96.6	448.1	99.9	103.4	108.1	113.4
December	108.7	117.4	98.3	476.8	96.8	106.8	107.3	117.6
1952								
January	106.5	115.4	95.8	524.7	88.7	104.7	102.3	115.5
February	106.8	115.9	95.9	552 9	91.9	104.7	102.7	114.3
March	106.6	116.1	95.3	572.4	91.6	103.8	103 1	114.4
April	103.7	113.9	91.7	576.3	93.6	100.7	102.5	106.3
May	103.6	113.6	91.7	596.9	87.6	99.9	103.0	106.5
June	102.3	108.5	94.9	597.4	100.3	101.0	103.9	[1] 67.0
July	98.7	101.1	95.9	576.8	99.6	98.8	99.2	[1] 62.5
August	107.3	112.0	101.7	573.3	104.3	105.1	105.2	106.3
September	112.5	119.1	104.7	609.1	102.1	109.9	106.6	112.2
October	113.6	122.1	103.4	604 3	99.8	113.3	109.4	113.5
November	113.6	123.5	101.9	594.6	98.6	114.5	107.7	114.8
December	115 6	126.8	102.3	616.0	95.4	117.0	107.8	117.0
1953								
January	113.1	125.0	98.9	616.8	90.1	112.9	103.7	116.9
February	113.9	126.1	99.2	638.4	91.0	113.9	105.1	116.6
March	115.2	128.1	99.8	653.2	92.1	114.7	107.4	117.5
April	113.6	127.4	97.2	661.6	93.9	112.2	107.6	116.0
May	112.9	126.3	96.9	698.5	95.2	109.1	107.3	115.8
June	113.7	126.4	98.6	707.6	99.1	107.6	108.1	116.5
July	111.6	122.5	98.7	722.8	95.6	103.7	105.4	114.3
August	113.6	123.4	101.9	702.1	96.6	106.6	107.8	113.9
September	111.8	121.1	100.7	703.8	93.8	105.7	106.4	110.5
October	111.2	121.3	99.1	697.2	94.3	106.2	107.9	109.2
November [2]	107.8	117.4	96.4	658.1	89.9	104.2	104.9	105.9
December [2]	106.8	116.2	95.5	651.9	85.5	102.8	102.5	104.2
1954								
January [2]	101.8	111.3	90.6	614.1	79.3	96.1	95.5	101.6

[1] Data are affected by work stoppage.
[2] Subject to revision.

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*—Con.

[1947–49 average=100]

Period	Durable goods						Nondurable goods	
	Fabricated metal products	Machinery (except electrical)	Electrical machinery	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries	Food and kindred products	Tobacco manufactures
1947	106.7	108.3	111.1	102.9	107.5	104.6	103.9	105.9
1948	103.8	106.6	102 9	100.9	103 0	104.2	100.0	101.0
1949	89.4	85 1	86.0	96.3	89.5	91.2	96.1	93.1
1950	106.5	94.0	107.6	106.1	97.4	101.3	95.2	89.2
1947								
January	109.0	109 0	117 6	104.7	110.9	108.2	98.1	113.6
February	108.0	109.5	116.3	105.5	111.4	107.9	92.8	106.0
March	109.2	110.4	117.0	106.7	112.5	107.7	91.7	98.4
April	108 0	110.9	109.9	106.9	110.6	104.8	91.9	90.0
May	106.0	109.4	106.6	101.2	109 0	101.1	94.3	85.0
June	104.9	108 4	108.6	104.7	108 8	98.0	99.5	91.8
July	101.1	103.7	105.0	96 2	100 5	93.0	109.8	95.1
August	101 2	104 3	104.3	94.2	102.5	97.8	121.5	111.9
September	106 5	106.6	108.8	99 8	104.6	104.5	125.0	126.4
October	107.8	107 7	111 7	101.5	105.6	109.5	112.0	126.0
November	107 8	107.9	112 8	102 6	105.6	111.7	106.4	116.5
December	111 4	111 6	114 3	110 5	107 5	111.4	104 2	110.0
1948								
January	108.3	110.2	111.3	107.3	106 2	104 2	95.2	101.2
February	106.4	109.6	109.6	98.2	106.2	106.6	91.9	95.3
March	106 0	110.3	107.5	105.2	106 2	106.3	90.5	94.3
April	103 3	106.8	103.5	103 2	104.3	103.4	84.9	93.4
May	102 0	106.9	99 9	94.6	101 8	101.6	88.3	89.6
June	99 9	108 3	100.1	96.7	102.0	101.6	100.8	91.3
July	99 3	104 1	96.9	100.0	98.6	96.1	109.3	88.5
August	103.0	104.8	98 7	97.7	102.0	104.0	109.7	111.6
September	102.5	104 4	100.7	97.4	103.6	106.4	122.9	117.1
October	105.8	105.3	102.0	102 9	103.0	109.5	108.9	122.9
November	105.2	104.2	102.7	102 1	101.2	108.2	100.9	104.5
December	104 3	104.4	102.0	105.1	101 0	102.1	96.7	102.0
1949								
January	97.9	100.8	97.2	103 4	97 4	94.4	89.3	91.3
February	95.2	98.6	94.2	101.4	94 3	93.8	86.8	87.4
March	91.8	95.2	89 9	98.0	93.1	91.5	85.9	85.6
April	87.2	89.8	84.7	97.6	91 1	86.0	85.7	79.5
May	85.2	85.6	81 7	90.9	89 5	84.0	89.3	80.4
June	85 4	82.5	79.2	97.8	87.9	84.6	95.0	87.0
July	84 7	78.9	76.9	100.9	84.9	78.9	102.4	84.5
August	87.8	78.1	78.4	98.6	84.4	87.0	112.7	108.9
September	91.8	79.1	84.1	101.4	86.5	96.2	111.5	115.0
October	89.5	78.0	88 0	95.7	88 2	101.6	105.0	105 4
November	85.6	75.4	87.3	83.2	88.6	101.3	96.8	96.6
December	91.0	79.5	90.6	86.5	88 6	95.0	92.6	96.0
1950								
January	91.5	80.5	91.5	98.1	86.9	88 1	87.1	96.8
February	92.5	83 7	93.7	85.9	87.4	91.2	83.8	81.8
March	94.2	86.1	95.2	87 6	87.6	92.3	84.2	78.8
April	96.9	88 9	98.6	92.0	88.6	92.8	83.8	74.5
May	100.0	91.3	101.4	106.1	90.5	93.0	87.3	76.5
June	105.9	92.8	101.7	112.0	93.3	95.1	93.1	78.2
July	105.7	93.0	103.5	110.0	92.7	92.5	102.7	79.3
August	114.0	97.1	111.1	116.4	98.8	107.1	110.7	98.8
September	117.5	96.4	115 7	115.0	107.3	114.1	112.4	113.8
October	120.0	102.7	125 2	117.7	110.0	119 3	103.1	106.9
November	119 0	105.7	125.7	113.4	112.5	117.7	98.2	91.2
December	120.8	110.2	127.3	119.4	113 6	112.5	95.4	94.2
1951	115.8	116 5	123.6	124.5	117.5	102 9	95.7	91.5
1952	112.4	116.7	129.5	136 5	122.7	100.1	93.9	93.3
1953								
1954								

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*—Con.

[1947–49 average=100]

Period	Durable goods						Nondurable goods	
	Fabricated metal products	Machinery (except electrical)	Electrical machinery	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries	Food and kindred products	Tobacco manufactures
1951								
January	118.9	112.1	124.2	117.4	111.6	108.0	90.7	90.9
February	119.2	114.6	124.6	125.0	114.6	112.5	87.1	84.7
March	120.6	116.9	125.9	128.4	116.1	112.7	86.9	78.3
April	120.5	118.1	124.9	126.3	117.8	109.7	86.7	76.4
May	118.4	117.8	122.8	125.6	117.5	104.7	88.9	73.9
June	117.6	118.6	122.3	124.7	117.9	102.3	94.2	77.9
July	110.9	115.3	115.6	120.4	115.3	95.4	101.7	76.1
August	112.5	113.1	119.4	122.8	117.1	97.2	108.4	100.8
September	112.9	114.9	123.5	124.6	119.0	97.8	112.7	117.5
October	112.8	117.4	124.2	123.6	119.8	98.5	103.7	116.6
November	111.4	118.0	127.0	125.9	121.4	98.1	95.2	102.2
December	114.1	121.7	129.2	129.0	122.1	98.0	92.2	102.1
1952								
January	112.3	122.1	128.7	128.4	121.1	94.8	86.2	94.5
February	112.6	121.5	128.2	130.0	120.4	96.6	85.1	84.2
March	112.1	121.3	127.2	131.9	120.9	96.8	84.2	78.9
April	109.6	119.7	123.3	132.2	120.6	94.2	84.1	72.0
May	109.8	118.7	122.5	136.0	119.9	93.8	86.5	79.5
June	105.2	117.4	122.9	136.5	119.3	94.5	94.1	81.5
July	97.3	109.0	117.0	117.0	114.9	90.9	100.9	80.3
August	106.5	108.1	124.1	122.9	120.4	98.7	105.3	106.0
September	115.4	111.3	133.6	142.9	125.0	105.9	110.8	116.7
October	120.0	113.1	138.3	150.0	127.4	111.3	102.2	117.2
November	121.5	115.8	141.3	151.7	129.9	113.0	95.3	103.7
December	126.9	122.2	146.6	158.4	132.5	110.6	92.0	105.3
1953								
January	125.5	121.7	146.1	157.7	129.8	105.6	85.9	96.2
February	126.4	122.2	147.2	161.2	129.2	107.8	84.0	86.1
March	128.2	124.2	149.5	164.0	131.9	110.4	83.8	82.0
April	127.9	122.0	149.0	163.9	129.6	110.2	82.9	78.7
May	127.3	119.8	146.4	160.6	130.4	109.5	86.4	78.0
June	127.6	118.4	145.0	159.2	131.1	118.0	91.4	78.1
July	123.2	113.6	139.4	156.2	126.1	103.9	98.9	79.2
August	124.4	111.3	143.6	156.6	126.5	110.4	104.6	103.3
September	122.1	110.2	144.0	150.2	128.1	111.3	108.8	110.7
October	122.0	110.4	142.5	151.1	128.3	114.6	99.9	108.5
November [2]	118.3	108.4	139.1	142.5	129.1	112.2	94.1	97.9
December [2]	115.3	109.2	133.9	147.5	128.4	108.7	88.5	103.7
1954								
January [2]	112.8	105.5	124.7	144.1	120.8	102.2	81.1	86.1

[2] Subject to revision.

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*—Con.

[1947–49 average=100]

Period	Nondurable goods: Textile-mill products	Apparel and other finished textile products	Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1947	104.5	99.6	102.6	101.4	103.3	99.0	109.8	105.8
1948	105.7	101.6	102.3	100.5	102.6	102.7	102.0	100.8
1949	89.9	98.8	95.1	98.0	94.1	98.3	88.1	93.4
1950	100.1	103.0	105.4	99.5	97.2	97.3	101.9	97.8
1947								
January	109.3	101.2	104.0	102.1	105.2	93.4	118.4	106.0
February	109.7	103.9	104.0	100.5	106.0	94.7	118.4	107.7
March	107.9	103.0	104.0	101.0	105.8	94.7	115.3	106.4
April	103.9	95.2	102.5	100.7	104.1	95.4	113.2	104.1
May	101.5	92.4	102.0	100.5	103.0	97.8	106.8	99.7
June	98.8	92.6	101.5	100.3	99.0	100.4	105.4	100.2
July	96.6	91.9	99.3	99.9	99.1	101.9	101.2	100.8
August	97.7	97.6	99.9	99.6	99.9	102.7	102.7	104.5
September	102.7	100.8	101.1	102.2	102.2	102.2	105.5	108.9
October	105.3	106.0	102.8	102.2	104.6	99.4	108.6	110.4
November	107.8	103.6	104.2	103.4	104.8	103.2	109.3	109.2
December	112.2	107.0	105.5	104.8	106.2	102.4	113.3	112.1
1948								
January	111.1	105.7	102.5	102.2	105.3	101.4	109.5	110.7
February	111.4	106.8	102.5	100.4	103.7	101.6	106.2	112.1
March	112.7	106.8	102.3	100.4	103.3	103.0	102.2	107.3
April	109.7	99.4	100.3	99.7	101.3	101.4	99.3	96.3
May	108.4	96.8	100.5	99.7	99.8	104.5	98.7	91.3
June	107.9	97.5	101.3	99.6	100.0	105.4	102.3	97.6
July	101.9	94.8	100.1	98.5	99.3	106.2	99.8	99.5
August	103.8	103.9	103.3	99.4	100.7	107.2	103.3	103.8
September	101.2	104.8	103.3	100.6	103.8	99.5	102.2	101.7
October	99.9	100.7	104.1	100.9	105.1	99.8	101.5	98.7
November	99.8	102.4	104.6	101.9	104.4	101.7	100.7	93.7
December	100.1	99.9	103.3	103.2	103.9	100.1	98.7	96.5
1949								
January	94.8	96.6	98.5	98.7	101.0	100.4	94.8	97.1
February	94.5	103.1	95.8	98.1	99.6	97.3	92.4	99.5
March	90.1	103.0	94.2	97.9	99.0	97.5	88.8	98.7
April	82.7	93.5	90.4	97.2	95.0	97.7	86.7	91.6
May	81.0	91.4	89.7	97.8	91.3	99.2	86.7	85.6
June	82.7	91.5	89.6	98.0	89.3	98.5	85.9	90.9
July	81.3	90.0	89.6	96.3	87.3	99.8	84.0	93.0
August	86.2	100.5	92.8	96.2	87.8	98.8	85.2	97.1
September	91.8	107.9	97.8	98.8	93.5	100.7	83.0	95.5
October	96.6	107.0	101.0	98.5	95.8	97.8	91.1	93.3
November	98.2	99.3	101.3	98.3	95.1	97.0	88.3	85.4
December	99.0	101.3	100.3	100.3	94.9	95.2	90.6	93.2
1950								
January	97.2	101.2	97.4	96.9	93.7	96.5	91.1	96.4
February	98.2	106.5	98.6	96.3	94.0	93.3	91.1	99.7
March	97.2	105.1	99.6	97.7	94.4	92.6	91.4	99.2
April	92.8	96.1	99.6	97.7	95.4	92.4	94.0	89.4
May	92.3	94.6	99.9	98.0	94.4	92.5	97.9	86.9
June	95.1	94.8	103.8	98.6	94.3	95.6	101.4	93.5
July	94.7	96.6	103.8	97.9	93.2	97.5	101.5	98.0
August	103.9	111.5	109.1	99.7	96.7	100.6	106.6	106.0
September	107.0	106.7	111.1	101.5	99.9	101.7	110.0	103.6
October	107.6	111.4	112.2	102.0	103.2	102.0	112.2	101.4
November	107.6	105.8	114.0	102.8	103.0	101.0	112.6	98.7
December	107.6	105.9	115.5	105.0	103.9	101.5	112.9	100.8
1951	96.1	101.8	110.0	101.3	104.3	102.1	108.1	92.1
952	91.2	103.7	106.3	101.4	100.6	98.2	106.6	97.1
1953								
1954								

TABLE 3.—*Indexes of production-worker aggregate weekly man-hours*—Con.

[1947–49 average=100]

Period	Nondurable goods							
	Textile-mill products	Apparel and other finished textile products	Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1951								
January	107.2	107.8	112.5	101.1	103.2	100.6	109.7	103.2
February	108.4	114.0	111.4	99.8	104 0	99.9	105.4	107.1
March	103.7	112.3	112.3	101.5	105.7	100 5	107.2	103.9
April	101.1	103.6	113.1	101.1	105.5	102.6	106.4	93.5
May	97.7	95.5	111.9	100.4	104.2	101.8	109.5	84.4
June	97.1	95.7	111.6	101.2	103.6	103.3	112.4	91.2
July	91.7	95.1	108.9	99.7	102.6	105.6	108 2	90.6
August	88.1	101.7	109.0	100.4	103.2	102.3	108.0	91.0
September	87.5	100.4	108.5	102.8	105.2	104.0	108.1	85.6
October	87.9	95.6	107.3	101.6	105.4	102.1	104.9	83.0
November	89.3	97.3	106.5	102 1	104.9	100.6	107.3	82.5
December	93.4	102.1	107.1	104.2	104.4	101.3	109.5	89.2
1952								
January	91.6	101.2	105.1	100.0	103.2	98.9	108.2	92.9
February	90.7	105.4	104.3	99.2	103.2	98.7	106.0	97.0
March	88.3	105.9	104.2	100.5	103.0	98.6	105.3	97.4
April	84.7	96.0	100.4	98.9	101.1	99.8	102.2	91.1
May	85.0	96.3	101.7	100 1	98.4	77.6	104.8	89.9
June	86.4	96.7	104.5	100.9	97.7	95 5	106.2	94.9
July	86.4	97.1	102.5	99.8	96.6	97.1	96.8	95.8
August	92 3	107.4	107.4	100 7	97.2	103.4	103.7	103.6
September	95.5	109.6	108.6	103 1	100.0	103 6	107.5	100.0
October	96.9	109.2	111.2	104 0	101.9	102 4	110.8	99.1
November	97.5	109.4	111.9	104 2	102 3	102.0	112.0	98.3
December	98.5	110.5	114.0	105.4	102.3	100.4	115.5	104.6
1953								
January	95.5	108.4	110.2	101.7	100.7	100 0	113.3	103 9
February	95.8	112 8	110.2	101.2	101.3	99.2	113 8	105 6
March	5.4	114.1	111.7	103.1	103.4	99.9	115.4	105.1
April	92 6	107.0	111.0	102.4	103.3	100.6	113.8	98.8
May	92 5	103.1	111.1	102.7	101.5	102.0	111.6	94.7
June	93.3	103.8	112.8	102 8	100 5	102 6	112 6	98.7
July	90.0	101.0	112 1	101.3	99.8	104 5	108 5	96.6
August	90.5	108.0	114.6	102.4	99.1	104 0	107 3	97.7
September	87.0	100.7	113.8	104.3	101.1	102.6	104 9	89.3
October	86.6	104.7	114.1	105 6	100.0	100.4	102.9	88.8
November [2]	84.9	101.6	113.3	104.6	99 7	99.5	101.7	88.3
December [2]	83.9	103.3	111.9	106.8	98.8	98.1	99.4	93.3
1954								
January [2]	78.2	96.8	109 6	102 4	97.2	97.7	98.6	93.4

[2] Subject to revision.

Source: U. S. Department of Labor, Bureau of Labor Statistics.

TABLE 4.—*Production-worker aggregate weekly man-hours* [1]

[In millions]

Year and month	Manufacturing	Durable goods	Nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures
1947: Average	517.2	284.9	232.3	0.9	32.7	12.5
1948: Average	509.6	279.5	230.1	1.0	31.4	12.6
1949: Average	454.2	240.9	213.3	.8	27.6	11.1
1947: January	521.0	287.3	233.7	.9	31.0	12.3
February	520.5	288.4	232.1	.9	32.2	12.6
March	519.7	290.1	229.6	.9	31.6	12.4
April	511.8	288.3	223.5	.9	32.4	12.1
May	504.0	283.0	221.0	.9	33.4	12.0
June	507.0	285.1	221.9	1.0	33.8	12.1
July	496.4	271.2	225.2	.9	32.7	11.5
August	509.9	274.6	235.3	.8	33.9	12.1
September	525.4	282.2	243.2	.9	33.3	12.5
October	527.7	286.7	241.0	1.0	33.1	13.1
November	526.0	287.3	238.8	1.0	32.2	13.3
December	537.4	295.2	242.2	1.0	32.4	13.7
1948: January	522.3	287.8	234.6	1.0	31.2	13.6
February	514.1	281.7	232.5	1.0	30.2	13.5
March	517.2	285.9	231.4	1.0	30.9	13.3
April	499.4	277.8	221.6	1.0	29.7	12.6
May	494.4	273.7	220.8	1.0	30.5	12.2
June	504.6	276.1	228.5	1.0	31.8	12.1
July	500.4	272.1	228.3	1.0	32.5	11.8
August	514.3	278.5	235.8	1.0	33.8	12.2
September	519.2	277.7	241.5	1.0	32.5	12.5
October	516.8	284.1	232.7	1.0	32.5	12.9
November	508.7	280.6	228.1	1.0	31.2	12.5
December	503.7	278.6	225.1	1.0	29.6	12.4
1949: January	480.9	266.1	214.7	1.0	27.2	11.3
February	474.8	260.2	214.6	1.0	26.0	11.2
March	464.4	253.2	211.2	.9	26.6	11.0
April	444.9	243.9	201.0	.8	26.8	10.5
May	436.1	236.3	199.8	.9	27.7	10.2
June	439.9	235.9	203.9	.8	28.0	10.2
July	435.1	229.3	205.8	.8	26.8	10.0
August	453.4	234.1	219.4	.7	28.1	10.8
September	467.6	240.9	226.7	.8	28.0	11.6
October	452.9	226.7	226.2	.8	28.9	12.1
November	442.4	224.4	218.1	.8	28.5	11.9
December	458.6	240.3	218.4	.8	28.3	12.5
1950: Average	499.1	275.7	223.4	1.0	30.4	13.5
1951: Average	534.5	310.4	224.1	2.7	31.3	12.8
1952: Average	531.1	310.6	220.5	5.4	29.4	12.8
1950: January	454.8	240.8	214.0	.8	25.1	12.2
February	455.6	241.1	214.6	.8	26.0	12.8
March	459.4	245.4	214.0	.8	27.6	12.9
April	461.5	254.2	207.3	.9	28.4	12.9
May	474.0	265.8	208.1	.9	29.9	12.9
June	489.6	275.0	214.7	.9	31.4	13.1
July	494.4	274.0	220.4	1.0	31.5	12.8
August	531.0	292.2	238.9	1.0	33.7	14.2
September	537.8	296.4	241.4	1.1	33.4	14.4
October	546.5	307.2	239.4	1.2	33.8	14.6
November	539.8	305.6	234.2	1.3	32.6	14.5
December	544.7	310.6	234.1	1.3	32.0	14.3
1951: January	536.7	305.9	230.8	1.3	30.7	13.9
February	542.4	310.8	231.6	1.5	30.5	14.1
March	544.1	315.2	228.9	1.6	29.7	14.3
April	539.3	316.4	222.9	1.9	31.9	13.5
May	531.0	313.5	217.6	2.1	32.7	12.5
June	535.4	314.0	221.4	2.2	33.5	12.0
July	522.0	300.9	221.1	2.7	30.8	11.6
August	531.4	305.1	226.3	3.1	32.1	11.9
September	536.7	308.1	228.5	3.4	31.6	12.1
October	531.3	310.0	221.3	3.8	31.9	12.3
November	527.1	309.5	217.6	4.1	30.5	12.5
December	536.7	315.3	221.4	4.4	29.6	12.9

See footnotes at end of table.

TABLE 4.—*Production-worker aggregate weekly man-hours* [1]—Continued

[In millions]

Year and month	Manufacturing	Durable goods	Nondurable goods	Durable goods: Ordnance and accessories	Durable goods: Lumber and wood products (except furniture)	Durable goods: Furniture and fixtures
1952: January	525.6	309.9	215.7	4.8	27.1	12.6
February	527.2	311.2	216.0	5.1	28.1	12.7
March	526.2	311.7	214.5	5.3	28.0	12.5
April	512.1	305.7	206.4	5.3	28.6	12.2
May	511.4	305.0	206.4	5.5	26.8	12.1
June	505.2	291.4	213.7	5.5	30.6	12.2
July	487.4	271.5	215.9	5.3	30.4	11.9
August	529.8	300.8	229.1	5.3	31.8	12.7
September	555.6	319.9	235.7	5.6	31.2	13.3
October	560.9	327.9	233.0	5.6	30.5	13.7
November	561.0	331.5	229.5	5.5	30.1	13.8
December	570.8	340.4	230.5	5.7	29.1	14.1
1953: January	558.3	335.5	222.8	5.7	27.5	13.6
February	562.2	338.7	223.5	5.9	27.8	13.8
March	568.6	343.8	224.7	6.0	28.1	13.9
April	561.0	342.1	218.9	6.1	28.7	13.6
May	557.3	339.1	218.2	6.5	29.1	13.2
June	561.4	339.2	222.2	6.5	30.3	13.0
July	551.2	328.9	222.3	6.7	29.2	12.5
August	560.7	331.2	229.5	6.5	29.5	12.9
September	552.0	325.2	226.7	6.5	28.6	12.8
October	548.8	325.6	223.1	6.4	28.8	12.8
November [3]	532.4	315.2	217.2	6.1	27.5	12.6
December [3]	527.1	311.9	215.2	6.0	26.1	12.4
1954: January [3]	502.8	298.8	204.0	5.7	24.2	11.6

Year and month	Durable goods: Stone, clay, and glass products	Durable goods: Primary metal industries	Durable goods: Fabricated metal products	Durable goods: Machinery (except electrical)	Durable goods: Electrical machinery	Durable goods: Transportation equipment
1947: Average	18.2	42.8	33.6	50.2	28.5	41.2
1948: Average	18.4	43.3	32.7	49.4	26.4	40.4
1949: Average	16.5	35.7	28.1	39.4	22.1	38.5
1947: January	18.0	42.9	34.3	50.5	30.2	41.9
February	17.7	43.0	34.0	50.8	29.8	42.2
March	18.1	43.5	34.4	51.2	30.0	42.7
April	18.2	43.5	34.0	51.4	28.2	42.8
May	17.9	42.8	33.3	50.7	27.3	40.5
June	18.3	43.4	33.0	50.2	27.8	41.9
July	17.6	41.0	31.8	48.1	26.9	38.5
August	18.2	41.9	31.8	48.3	26.8	37.7
September	18.2	42.2	33.5	49.4	27.9	40.0
October	18.5	42.8	33.9	49.9	28.6	40.6
November	18.5	42.9	33.9	50.0	28.9	41.1
December	18.6	43.6	35.0	51.7	29.3	44.2
1948: January	17.6	43.4	34.1	51.1	28.5	43.0
February	17.4	43.2	33.5	50.8	28.1	39.3
March	18.2	43.8	33.3	51.1	27.6	42.1
April	18.3	42.2	32.5	49.5	26.5	41.3
May	18.5	42.8	32.1	49.5	25.6	37.9
June	18.7	43.0	31.4	50.2	25.7	38.7
July	17.9	42.1	31.2	48.2	24.9	40.0
August	19.0	43.3	32.4	48.5	25.3	39.1
September	18.7	43.2	32.2	48.4	25.8	39.0
October	19.0	44.3	33.3	48.8	26.2	41.2
November	18.6	44.1	33.1	48.3	26.3	40.9
December	18.5	44.2	32.8	48.4	26.2	42.1

See footnotes at end of table.

TABLE 4.—*Production-worker aggregate weekly man-hours*—Continued

[In millions]

Year and month	Durable goods					
	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery (except electrical)	Electrical machinery	Transportation equipment
1949: January	17.3	43.4	30.8	46.7	24.9	41.4
February	17.2	42.7	29.9	45.7	24.2	40.6
March	16.8	41.2	28.9	44.1	23.1	39.2
April	16.3	39.2	27.4	41.6	21.7	39.1
May	16.4	37.4	26.8	39.7	21.0	36.4
June	16.2	36.2	26.9	38.2	20.3	39.2
July	15.5	34.2	26.6	36.5	19.7	40.4
August	16.3	34.7	27.6	36.2	20.1	39.5
September	16.4	35.0	28.9	36.7	21.6	40.6
October	16.6	20.6	28.2	36.1	22.6	38.3
November	16.4	26.7	26.9	34.9	22.4	33.3
December	16.5	37.2	28.6	36.8	23.2	34.6
1950: Average	18.2	42.3	33.5	43.6	27.6	42.5
1951: Average	19.7	47.0	36.4	54.0	31.7	49.8
1952: Average	18.5	[2] 42.3	35.4	54.1	33.2	54.7
1950: January	15.9	37.6	28.8	37.3	23.5	39.3
February	16.2	38.3	29.1	38.8	24.0	34.4
March	16.4	37.7	29.6	39.9	24.4	35.1
April	17.0	40.1	30.5	41.2	25.3	36.8
May	17.7	40.9	31.5	42.3	26.0	42.5
June	18.2	42.1	33.3	43.0	26.1	44.9
July	18.1	42.2	33.3	43.1	26.5	44.0
August	19.2	43.9	35.9	45.0	28.5	46.6
September	19.2	45.0	37.0	44.7	29.7	46.1
October	20.2	45.9	37.7	47.6	32.1	47.1
November	20.3	46.1	37.4	49.0	32.2	45.4
December	19.9	47.3	38.0	51.1	32.6	47.8
1951: January	19.5	46.9	37.4	51.9	31.9	47.0
February	19.4	46.5	37.5	53.1	32.0	50.0
March	20.0	47.3	37.9	54.2	32.3	51.4
April	20.3	47.6	37.9	54.7	32.0	50.6
May	20.2	47.2	37.2	54.6	31.5	50.3
June	20.1	48.0	37.0	54.9	31.4	49.9
July	19.6	46.4	34.9	53.4	29.6	48.2
August	19.9	46.5	35.4	52.4	30.6	49.2
September	19.8	46.7	35.5	53.2	31.7	49.9
October	19.8	46.5	35.5	54.4	31.9	49.5
November	19.1	46.0	35.0	54.7	32.6	50.4
December	19.0	47.7	35.9	56.4	33.1	51.7
1952: January	18.1	46.9	35.3	56.6	33.0	51.4
February	18.1	46.4	35.4	56.3	32.9	52.1
March	18.2	46.5	35.3	56.2	32.6	52.8
April	18.1	43.2	34.5	55.4	31.6	52.9
May	18.2	43.2	34.5	55.0	31.4	54.5
June	18.4	[2] 27.2	33.1	54.4	31.5	54.7
July	17.5	[2] 25.4	30.6	50.5	30.0	46.9
August	18.6	43.2	33.5	50.1	31.8	49.2
September	18.8	45.6	36.3	51.6	34.3	57.2
October	19.3	46.1	37.7	52.4	35.5	60.1
November	19.0	46.6	38.2	53.7	36.2	60.7
December	19.0	47.5	39.9	56.6	37.6	63.4
1953: January	18.3	47.5	39.5	56.4	37.5	63.1
February	18.6	47.3	39.8	56.6	37.7	64.5
March	19.0	47.7	40.3	57.5	38.3	65.7
April	19.0	47.1	40.2	56.5	38.2	65.6
May	19.0	47.0	40.1	55.5	37.5	64.3
June	19.1	47.3	40.2	54.9	37.2	63.7
July	18.6	46.4	38.7	52.7	35.8	62.5
August	19.0	46.2	39.1	51.6	36.8	62.7
September	18.8	44.9	38.4	51.1	36.9	60.1
October	19.1	44.3	38.4	51.2	36.5	60.5
November [3]	18.5	43.0	37.2	50.2	35.7	57.1
December [3]	18.1	42.3	36.3	50.6	34.3	59.1
1954: January [3]	16.9	41.2	35.5	48.9	32.0	57.7

See footnotes at end of table.

Table 4.—*Production-worker aggregate weekly man-hours*—Continued

[In millions]

Year and month	Durable goods: Instruments and related products	Durable goods: Miscellaneous manufacturing industries	Nondurable goods: Food and kindred products	Nondurable goods: Tobacco manufactures	Nondurable goods: Textile-mill products	Nondurable goods: Apparel and other finished textile products
1947: Average	8.3	16.1	51.9	4.3	49.6	37.4
1948: Average	8.0	16.1	50.0	4.1	50.2	38.2
1949: Average	7.0	14.1	48.0	3.8	42.7	37.1
1947: January	8.6	16.7	49.0	4.6	51.9	38.1
February	8.6	16.6	46.4	4.3	52.1	39.1
March	8.7	16.6	45.8	4.0	51.2	38.7
April	8.6	16.2	45.9	3.6	49.3	35.8
May	8.5	15.6	47.1	3.4	48.2	34.7
June	8.4	15.1	49.7	3.7	46.9	34.8
July	7.8	11.3	54.9	3.8	45.9	34.5
August	8.0	15.1	60.7	4.5	46.4	36.7
September	8.1	16.1	62.5	5.1	48.7	37.9
October	8.2	16.9	56.0	5.1	50.0	39.8
November	8.2	17.2	53.2	4.7	51.2	38.9
December	8.3	17.2	52.1	4.4	53.3	40.2
1948: January	8.2	16.1	47.6	4.1	52.7	39.7
February	8.2	16.4	45.9	3.8	52.9	40.2
March	8.2	16.4	45.2	3.8	53.5	40.1
April	8.1	15.9	42.4	3.8	52.1	37.4
May	7.9	15.7	44.1	3.6	51.5	36.4
June	7.9	15.7	50.4	3.7	51.2	36.7
July	7.7	14.8	54.6	3.6	48.4	35.6
August	7.9	16.0	54.8	4.5	49.3	39.1
September	8.0	16.4	61.4	4.7	48.0	39.4
October	8.0	16.9	54.4	4.9	47.4	37.9
November	7.9	16.7	50.4	4.2	47.4	38.5
December	7.8	15.7	48.3	4.1	47.5	37.6
1949: January	7.6	14.6	44.6	3.7	45.0	36.3
February	7.3	14.5	43.4	3.5	44.9	38.8
March	7.2	14.1	42.9	3.4	42.8	38.7
April	7.1	13.3	42.8	3.2	39.3	35.2
May	7.0	12.9	44.6	3.2	38.5	34.4
June	6.8	13.0	47.5	3.5	39.3	34.4
July	6.6	12.2	51.2	3.4	38.6	33.8
August	6.6	13.4	56.3	4.4	40.9	37.8
September	6.7	14.8	55.7	4.6	43.6	40.6
October	6.8	15.7	52.5	4.2	45.9	40.2
November	6.9	15.6	48.4	3.9	46.6	37.3
December	6.9	14.6	46.3	3.9	47.0	38.1
1950: Average	7.6	15.6	47.6	3.6	47.5	38.7
1951: Average	9.1	15.9	47.8	3.7	45.6	38.3
1952: Average	9.5	15.4	46.3	3.8	43.3	39.0
1950: January	6.7	13.6	43.5	3.9	46.2	38.1
February	6.8	14.1	41.9	3.3	46.6	40.0
March	6.8	14.2	42.1	3.2	46.2	39.5
April	6.9	14.3	41.9	3.0	44.1	36.1
May	7.0	14.3	43.6	3.1	43.8	35.6
June	7.2	14.7	46.5	3.1	45.2	35.6
July	7.2	14.3	51.3	3.2	45.0	36.3
August	7.7	16.5	55.3	4.0	49.3	41.9
September	8.3	17.6	56.2	4.6	50.8	40.1
October	8.5	18.4	51.5	4.3	51.1	41.9
November	8.7	18.1	49.1	3.7	51.1	39.8
December	8.8	17.3	47.7	3.8	51.1	39.8
1951: January	8.7	16.7	45.3	3.7	50.9	40.5
February	8.9	17.3	43.5	3.4	51.5	42.9
March	9.0	17.4	43.4	3.2	49.3	42.2
April	9.1	16.9	43.3	3.1	48.0	38.9
May	9.1	16.1	44.4	3.0	46.4	35.9
June	9.2	15.8	47.1	3.1	46.1	36.0
July	8.9	14.7	50.8	3.1	43.6	35.7
August	9.1	15.0	54.2	4.1	41.8	38.2
September	9.2	15.1	56.3	4.7	41.5	37.8
October	9.3	15.2	51.8	4.7	41.8	35.9
November	9.4	15.1	47.6	4.1	42.4	36.6
December	9.5	15.1	46.1	4.1	44.3	38.4
1952: January	9.4	14.6	43.1	3.8	43.5	38.0
February	9.3	14.9	42.5	3.4	43.1	39.6
March	9.4	14.9	42.1	3.2	41.9	39.8
April	9.4	14.5	42.0	2.9	40.2	36.1
May	9.3	14.5	43.2	3.2	40.4	36.2
June	9.3	14.6	47.0	3.3	41.0	36.3
July	8.9	14.0	50.4	3.2	41.0	36.5

See footnotes at end of table.

TABLE 4.—*Production-worker aggregate weekly man-hours*—Continued

[In millions]

Year and month	Durable goods: Instruments and related products	Durable goods: Miscellaneous manufacturing industries	Nondurable goods: Food and kindred products	Nondurable goods: Tobacco manufactures	Nondurable goods: Textile-mill products	Nondurable goods: Apparel and other finished textile products
1952: August	9.4	16.2	52.6	4.3	43.8	40.4
September	9.7	16.3	55.4	4.7	45.3	41.2
October	9.9	17.2	51.1	4.7	46.0	41.1
November	10.1	17.4	47.6	4.2	46.3	41.1
December	10.3	17.1	46.0	4.2	46.8	41.5
1953: January	10.1	16.3	42.9	3.9	45.3	40.7
February	10.0	16.6	42.0	3.5	45.5	42.4
March	10 2	17.0	41.9	3.3	45 3	42.9
April	10.1	17.0	41.4	3.2	43.9	40.2
May	10.1	16.9	43.2	3.1	43.9	38.8
June	10.2	17.0	45.7	3.1	44.3	39.0
July	9.8	16.0	49 4	3.2	42.7	38.0
August	9 8	17.0	52.3	4.2	43.0	40.6
September	9.9	17.2	54.4	4.5	41 3	37.9
October	10.0	17.7	49.9	4.4	41.1	39.4
November [3]	10.0	17.3	47.0	3.9	40.3	38.2
December [3]	10 0	16.8	44.2	4.2	39.8	38.8
1954: January [3]	9.4	15.8	40.5	3.5	37.1	36.4

Year and month	Nondurable goods: Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1947: Average	17.5	19.2	21.8	7.5	8.7	14.4
1948: Average	17.4	19.0	21.7	7.7	8.1	13.7
1949: Average	16.2	18.5	19.9	7.4	7.0	12.7
1947: January	17.7	19.3	22.2	7.1	9.4	14.4
February	17.7	19.0	22.4	7.2	9.4	14.6
March	17.7	19.1	22.3	7.2	9.2	14.4
April	17.5	19.1	22 0	7 2	9.0	14.1
May	17.4	19.0	21.7	7.4	8.5	13.5
June	17.3	19.0	20.9	7 6	8.4	13.6
July	16.9	18.9	20.9	7.7	8.1	13.7
August	17.0	18.8	21.1	7.8	8.2	14.2
September	17.2	19.3	21.6	7.7	8.4	14.8
October	17.5	19.3	22.1	7.5	8.6	15.0
November	17.7	19.6	22.1	7.8	8.7	14.8
December	18.0	19.8	22.4	7.7	9.0	16.2
1948: January	17.5	19.3	22.2	7.7	8.7	15.0
February	17.5	19.0	21.9	7.7	8.5	15.2
March	17.4	19.0	21.8	7.8	8.1	14.6
April	17.1	18.9	21.4	7.7	7.9	13.1
May	17.1	18.9	21.1	7.9	7.9	12.4
June	17.2	18.8	21.1	8.0	8.1	13.2
July	17.0	18.6	21.0	8.0	7.9	13.5
August	17.6	18.8	21.3	8.1	8.2	14.1
September	17.6	19.0	21.9	7.5	8.1	13.8
October	17.7	19.1	22.2	7.5	8.1	13.4
November	17.8	19.3	22.1	7.7	8.0	12.7
December	17.6	19.5	21.9	7.6	7.9	13.1
1949: January	16.8	18.7	21.3	7.6	7.5	13.2
February	16.3	18.6	21.0	7.3	7.4	13.5
March	16.0	18.5	20.9	7.4	7.1	13.4
April	15.4	18.4	20.1	7.4	6.9	12.4
May	15.3	18.5	19.3	7.5	6.9	11.6
June	15.3	18.5	18.9	7.4	6.8	12.3
July	15.2	18.2	18.4	7.5	6.7	12.6
August	15.8	18.2	18.5	7.5	6.8	13.2
September	16.7	18.7	19.7	7.6	6.6	13.0
October	17.2	18.6	20.2	7.4	7.3	12.7
November	17.2	18.6	20.1	7.3	7.0	11.6
December	17.1	19.0	20.1	7.2	7.2	12.7

See footnotes at end of table.

TABLE 4.—*Production-worker aggregate weekly man-hours*—Continued

[In millions]

Year and month	Nondurable goods: Paper and allied products	Printing, publishing, and allied industries	Chemicals and allied products	Products of petroleum and coal	Rubber products	Leather and leather products
1950: Average	17.9	18.8	20.5	7.3	8.1	13.3
1951: Average	18.7	19.2	22.0	7.7	8.6	12.5
1952: Average	18.1	19.2	21.2	7.4	8.5	13.2
1950: January	16.6	18.3	19.8	7.3	7.3	13.1
February	16.8	18.2	19.9	7.0	7.3	13.5
March	17.0	18.5	19.9	7.0	7.3	13.5
April	17.0	18.5	20.1	7.0	7.5	12.1
May	17.0	18.5	19.9	7.0	7.8	11.8
June	17.7	18.7	19.9	7.2	8.1	12.7
July	17.7	18.5	19.7	7.4	8.1	13.3
August	18.6	18.9	20.4	7.6	8.5	14.4
September	18.9	19.2	21.1	7.7	8.8	14.1
October	19.1	19.3	21.8	7.7	8.9	13.8
November	19.4	19.4	21.8	7.6	9.0	13.4
December	19.7	19.9	21.9	7.7	9.0	13.7
1951: January	19.2	19.1	21.8	7.6	8.7	14.0
February	19.0	18.9	22.0	7.5	8.4	14.5
March	19.1	19.2	22.3	7.6	8.5	14.1
April	19.3	19.1	22.3	7.7	8.5	12.7
May	19.0	19.0	22.0	7.7	8.7	11.5
June	19.0	19.2	21.9	7.8	8.9	12.4
July	18.5	18.9	21.7	8.0	8.6	12.3
August	18.6	19.0	21.8	7.7	8.6	12.3
September	18.5	19.5	22.2	7.8	8.6	11.6
October	18.3	19.2	22.3	7.7	8.4	11.3
November	18.1	19.3	22.2	7.6	8.5	11.2
December	18.2	19.7	22.1	7.6	8.7	12.1
1952: January	17.9	18.9	21.8	7.5	8.6	12.6
February	17.8	18.8	21.8	7.5	8.4	13.2
March	17.7	19.0	21.8	7.4	8.4	13.2
April	17.1	18.7	21.4	7.5	8.1	12.4
May	17.3	18.9	20.8	5.9	8.3	21.2
June	17.8	19.1	20.6	7.2	8.5	12.9
July	17.4	18.9	20.4	7.3	7.7	13.0
August	18.3	19.1	20.5	7.8	8.3	14.1
September	18.5	19.5	21.1	7.8	8.6	13.6
October	18.9	19.7	21.5	7.7	8.8	13.5
November	19.1	19.7	21.6	7.7	8.9	13.3
December	19.4	19.9	21.6	7.6	9.2	14.2
1953: January	18.8	19.2	21.3	7.5	9.0	14.1
February	18.8	19.2	21.4	7.5	9.1	14.3
March	19.0	19.5	21.8	7.5	9.2	14.3
April	18.9	19.4	21.8	7.6	9.1	13.4
May	18.9	19.4	21.4	7.7	8.9	12.9
June	19.2	19.5	21.2	7.7	9.0	13.4
July	19.1	19.2	21.1	7.9	8.6	13.1
August	19.5	19.4	20.9	7.9	8.5	13.3
September	19.4	19.7	21.4	7.7	8.3	12.1
October	19.4	20.0	21.1	7.6	8.2	12.0
November [3]	19.3	19.8	21.1	7.5	8.1	12.0
December [3]	19.0	20.2	20.9	7.4	7.9	12.7
1954: January [3]	18.7	19.4	20.5	7.4	7.9	12.7

[1] Aggregate weekly man-hours are for the pay period ending nearest the 15th of the month and do not represent totals for the month. These data are derived by multiplying production-worker employment by average weekly hours.

[2] Data are affected by work stoppage.

[3] Data are subject to revision.

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

Source: U. S. Department of Labor, Bureau of Labor Statistics (2-54).

RECENT EMPLOYMENT DEVELOPMENTS IN THE UNITED STATES—SUMMARY OF STATEMENT BY EWAN CLAGUE, COMMISSIONER OF LABOR STATISTICS, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT CONSIDERING THE PRESIDENT'S ECONOMIC REPORT

The latest figures of the Bureau of Labor Statistics on factory employment and hours of work in January show that the downtrend in the manufacturing sector of the economy continued into the new year. These data are available today because in recent months we have speeded up our statistical program in the field of employment, hours and earnings to the point where we are able to release our data 3 weeks after the midmonth payroll period to which they refer. Within a few days, I shall be able to supplement the manufacturing data presented here with January 1954 estimates for the entire nonfarm sector.

The number of employees in manufacturing industries dropped by 380,000 between December 1953 and January 1954. This decline was appreciably larger than usual for this time of year. It was, in fact, the largest reduction for the season since January 1949.

These most recent developments mark a half-year decline in manufacturing employment. As a result, the January manufacturing employment level of 16.1 million was three-quarters of a mililon lower than in January a year ago. Nevertheless, the total was the highest for the month in the entire postwar period, with the single exception of 1953.

Employees in manufacturing major industry groups [1]

[In thousands]

Industry group	1954	1953				January 1954 net change from—	
	January [2]	December	November	October	January	December 1953	January 1953
Manufacturing	16,113	16,495	16,709	17,017	16,884	−382	−771
Durable goods	9,381	9,572	9,700	9,879	9,880	−191	−499
Ordnance and accessories	186.9	195.9	200.6	204.6	181.0	−9.0	+5.9
Lumber and wood products (except furniture)	679.4	713.7	751.6	773.0	744.3	−34.3	−64.9
Furniture and fixtures	346 3	358.6	365 2	367.5	382.6	−12 3	−36.3
Stone, clay, and glass products	511.8	527.0	538.7	544.7	531.3	−15.2	−19.5
Primary metal industries	1,229.7	1,259.2	1,275.5	1,300.7	1,335.8	−29.5	−106.1
Fabricated metal products (except ordnance, machinery, and transportation equipment)	1,088.8	1,086.6	1,120.6	1,142.0	1,135.2	+2.2	−46.4
Machinery (except electrical)	1,586.0	1,600.3	1,602 3	1,614.6	1,702.1	−14.3	−116.1
Electrical machinery	1,112.9	1,145.6	1,177.6	1,196.1	1,173 5	−32.7	−60.6
Transportation equipment	1,830.8	1,857.7	1,821.8	1,885.2	1,891.5	−26.9	−60.7
Instruments and related products	325.0	330.4	332.9	330.9	327.5	−5.4	−2.5
Miscellaneous manufacturing industries	482.9	496.8	513.0	519.2	474.9	−13.9	+8.0
Nondurable goods	6,732	6,923	7,009	7,138	7,004	−191	−272
Food and kindred products	1,421.5	1,495.6	1,562.7	1,631.0	1,455.7	−74.1	−34.2
Tobacco manufactures	101.5	115.0	111.9	119.5	110.0	−13.5	−8.5
Textile-mill products	1,094.0	1,135.1	1,152.2	1,173.6	1,227.9	−41.1	−133.9
Apparel and other finished textile products	1,177.3	1,205.0	1,200.2	1,216.9	1,234.5	−27.7	−57.2
Paper and allied products	529.3	534.9	538.8	541.8	522.1	−5.6	+7.2
Printing, publishing, and allied industries	792.0	802.6	798.5	797.5	772.5	−10.6	+91.5
Chemicals and allied products	739.9	745.6	752.2	756.5	749.0	−5.7	−9.1
Products of petroleum and coal	253.3	256.0	259.2	261.5	258.3	−2.7	−5.0
Rubber products	249.7	256.5	259.4	265.0	275.1	−6.8	−25.4
Leather and leather products	373.5	376.2	374.1	374.7	398 7	−2.7	−25.2

[1] Data include all full- and part-time employees who worked during, or received pay for, any part of the pay period ending nearest the 15th of the month. Proprietors, self-employed persons, domestic servants, and unpaid family workers are excluded. These employment series have been adjusted to 1st quarter 1951 benchmark levels indicated by data from government social insurance programs.

[2] Data for January 1954 are preliminary. Data for November and December are subject to revision.

Curtailment in factory overtime also persisted into 1954. Average weekly hours for factory production workers dropped by four-fifths of an hour between December 1953 and January 1954 to 39.4 hours. The workweek customarily declines at this time of year because of seasonal factors, but this decrease was considerably larger than usual.

At the January level, the factory workweek was more than 1½ hours lower than at the same month of last year. It was, in fact, under the January level for most recent years.

In order to know where we stand, and to get some idea of where we are going, the January employment developments that I have just summarized need to be viewed in the light of recent employment trends. I would like first to summarize the trend of the past several years, and then to probe beneath the aggregate figures, in order to examine the underlying industrial and geographic changes.

In 1953, taking the year as a whole, nonfarm employment was at an all-time peak of 49.1 million. During the year, however, a downtrend in employment got under way and continued into 1954. Before going into these developments more fully, let us examine briefly the employment history of the preceding 3-year period.

EMPLOYMENT EXPANSION DURING THE KOREAN EMERGENCY

In June 1953—shortly before the present downtrend started—nonfarm industries employed almost 5 million more workers than at the time of the Korean outbreak. This increase reflected not only the growing labor requirements of the defense program, but also the greatly expanded demand for consumer goods and services. The largest part of this increase occurred in the first 12 months after the Korean outbreak, as activity was stepped up in nearly every sector of the economy.

The employment gain in the second post-Korean year was much more modest—about 500,000, after allowance for the effects of the mid-1952 work stoppage in the steel industry. Plants producing military goods and industrial equipment continued to build up their work force, and workers were added to Government, finance, and trade payrolls. However, employment went down in many consumer goods industries, as the early post-Korean buying waves were followed by slackened consumer demand and inventory buildup.

In the second half of 1952, renewed expansion of consumer demand and depletion of inventories brought recovery in consumer goods manufacturing. Also, the process of replenishing supplies of steel and steel products following the midyear strike intensified the employment uptrend. At the same time, employment in plants producing military goods and industrial equipment continued to increase, although at a slower pace than in the previous year. In the first half of 1953, employment was maintained at peak levels, showing little change from month to month apart from seasonal variation.

INDUSTRY PATTERN OF THE RECENT EMPLOYMENT DOWNTREND

In the late summer of 1953, employment began to edge down from the very high plateau attained earlier in the year. The nonfarm employment total in July showed a slight seasonal drop, largely because of vacation shutdowns in manufacturing industries and hot weather slackening in retail trade operations. The following month, however, there was an employment gain of only 200,000 considerably less than the upswing usually occurring as factories reopen after vacation shutdowns and consumer goods industries start to expand their production for the fall shopping season.

This initial failure to match seasonal expectations occurred primarily in the manufacturing sector. Although manifested in a number of different industries, most of the changes were quite small and they occurred at such high employment levels that the manufacturing total for August 1953 remained at a record for the season in the postwar period.

Between August and September, the downtrend in factory employment was accelerated as the area of employment weakening widened to include additional industries. The number of workers on manufacturing payrolls was reduced by about 60,000 over the month, whereas in every prior year since the end of World War II, increases in the factory work force—averaging about 200,000—had been reported between August and September.

The closing months of 1953 were characterized by further losses in manufacturing employment. As a result, the factory total for December 1953 was a half million below the December 1952 level.

In the early stages of the downtrend, the majority of manufacturing industry groups remained at postwar employment peaks for the season. By December, however, most of them reported appreciable reductions from year-ago levels. A few—lumber, stone, clay, and glass, and textiles—had reduced their employment to the lowest December level in 4 or more years. Over-the-year gains were limited to printing and publishing, paper, ordnance, instruments, and miscellaneous manufacturing.

During this period, the pattern of nonmanufacturing employment contrasted with the developments in manufacturing. Losses in some sectors were offset by gains in others so that the nonmanufacturing total at the close of 1953 was about equal to the all-time high point for the month that had been attained a year earlier. The nonfarm employment level, therefore, at 49.6 million in December 1953, was down over the year only by the amount of the reduction in manufacturing.

FACTORY WORKWEEK REFLECTS CHANGING DEMAND FOR LABOR

Changes in the workweek often represent adjustments to varying levels of labor demand; in fact, they often precede changes in the general employment situation by a considerable margin. When it is necessary to step up output, one of the quickest methods may be to increase hours of work, thus getting higher production in less time than it takes to recruit and train additional workers.

The sensitivity of the workweek under conditions of contracting labor demand is illustrated by recent developments which point to a tendency to eliminate overtime when production schedules are first cut back, before resorting to substantial layoffs. Well in advance of the late summer downtrend in factory employment, there were clear indications of some curtailment of overtime work.

However, the downtrend in the workweek, like the employment decline, was gradual, so that it was not until October 1953 that hours of work showed a significant over-the-year drop. By December 1953, the workweek was more than an hour and a half below the year-ago level, and it was the lowest reported for the month since 1949. The decline in the workweek occurred in all major industry groups. However, the December average of slightly above 40 hours suggests the continuation of significant, although considerably reduced, amounts of overtime work in manufacturing.

MAN-HOURS AS A SUMMARY MEASURE OF INDUSTRY EMPLOYMENT AND HOURS CHANGES

The sensitivity of the manufacturing sector of the economy is most strikingly revealed by changes in production worker aggregate weekly man-hours, which measure the combined effects of variations in employment and hours of work. The man-hours index (1947–1949 average=100) rose from 99 in the pre-Korea month of June 1950 to almost 114 in June 1953—a post-World War II peak for the month.

Cutbacks in factory overtime and reductions in the work force brought the man-hours index almost steadily downward in the second half of 1953. By October, there was an over-the-year reduction of about 2 percent. At the close of 1953, the index was down to 106—not only 8-percent lower than in December 1952 but also the lowest December figure since 1949.

Underlying the over-all drop in factory man-hours were wide differences among industries. Except for ordnance and printing, all major industry groups showed some loss in man-hours over the year. In two groups, textiles and rubber, the reduction was almost 15 percent.

Seven industry groups reported over-the-year reductions in man-hours in the 10- to 15-percent range. In December 1952, five of these groups—furniture, primary metals, machinery, transportation equipment, and rubber—were at or very near postwar peaks for the season. In all of these, the December 1953 man-hours levels were still well above the December low points recorded in the previous 6 years.

In the leather products, the December level was somewhat above the postwar low for the month reached in 1951 despite a 12-percent drop in man-hours between December 1952 and December 1953.

In the textile industry group, where the over-the-year decline also fell within the 10- to 15-percent range, the situation was quite different. The year-ago level was low compared with most other postwar Decembers. As a result, the recent decline brought textile man-hours in December 1953 to the lowest point for the season in many years.

Of the industries where man-hours were maintained not far from the December 1952 level—that is, where increases occurred or reductions were less than 5 percent—only food, stone, clay and glass products, and chemicals were at a low point in December 1953. Man-hours in the other industry groups falling within this general category of over-the-year change—ordnance, printing and publishing, paper, instruments, petroleum products, and miscellaneous manufacturing—were at or not substantially below 7-year peaks for the month.

TURNOVER STATISTICS POINT TO CHANGES IN THE LABOR MARKET

Even before the current employment downturn was reflected in employment levels, a marked falling off in factory hiring rates signaled a possible change in employment conditions. Layoffs did not rise appreciably until a somewhat later stage of the employment downturn. By December, however, the layoff rate had reached 29 per 1,000 employees, the highest for the season in the postwar period.

The trend of quit rates in the current situation reflects the response of workers to the changing volume of job opportunities. When employment is expanding and alternate opportunities are numerous, workers are more likely to quit their jobs to search for better ones. Under conditions of contracting opportunity, they tend to hold on to their current jobs. Quits began to fall off appreciably in the late summer of last year. In December 1953 the rate was down to a postwar low for the month, with the exception of December 1949.

GEOGRAPHIC DIFFERENTIALS IN EMPLOYMENT TRENDS

The contraction of factory employment over the past year also has been unequally distributed among the various States. In a number of States, there was little net change in factory employment over the past year and in some, increases actually occurred. Except for California, Connecticut, and Missouri, however, none of these was among the leading industrial States.

At the other end of the scale, with over-the-year declines of 5 percent or more, were a number of widely scattered States—Maine, Rhode Island, Indiana, Wisconsin, Iowa, South Dakota, Kansas, Idaho, and Arizona. A variety of factors contributed to these changes, including in the case of the major industrial States, employment cutbacks in automobiles, farm machinery, and textiles.

The materials that we have prepared for insertion into the committee record presents a somewhat more complete account of recent developments and of their significance. Also included are related statistical data and a technical statement on the scope and limitations of our employment and hours statistics programs.

Chairman WOLCOTT. Mr. Robert Goodwin, the Director of the Bureau of Employment Security.

Mr. Goodwin, we are very happy to have you here, and may I again call attention to the fact that it seems desirable to allowing the witness to proceed with his statement before we ask questions, and we will have all opportunity to ask each individual member of the panel and the panel as a whole any questions which the members of the commitee want to put, following their statements.

STATEMENT OF ROBERT C. GOODWIN, DIRECTOR, BUREAU OF EMPLOYMENT SECURITY, ACCOMPANIED BY LOUIS LEVINE, BUREAU OF EMPLOYMENT SECURITY

Mr. GOODWIN. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, the information I will give the committee today is derived from the administration of the employment security program which is concerned with the unemployment insurance activity and the operations of the public employment offices. This program deals with the problems of employment and unemployment as reflected by changing labor market conditions.

The employment security system in the United States is a Federal-State partnership consisting of the Bureau of Employment Security in the Department of Labor and a State employment security agency in each State and territory. These State agencies operate some 1,600 full-time local offices and some 2,000 part-time offices providing services to every community in the country. Each of the local offices is a part of the community labor market in which it operates and in a real sense is the manpower center of the community. In their day-to-day operations of interviewing applicants for work, providing employment counseling and testing services, examining qualified claimants for unemployment insurance benefits, selecting and referring workers to jobs, and receiving orders from employers, the staff of the local employment security offices is constantly receiving and disseminating labor market information. The statistical data published by the Bureau of Employment Security are received from State and local offices and provide a significant and highly sensitive indication of economic developments in local labor market areas throughout the country. The Bureau, however, is not a statistical agency; the information results as a byproduct of our daily operations. It is assembled and analyzed primarily for use in improving employment security operations—in making them more effective.

The local employment offices, which operate at the grassroots, are engaged in activities designed primarily to promote employment opportunities and to provide some degree of income maintenance to unemployed workers. They help employers to find the workers they need and they shorten the period of unemployment between jobs for the workers. By paying unemployment insurance benefits to properly qualified claimants they act as the Government's first line of defense against employment declines. They provide some income to the unemployed worker and aid in maintaining his purchasing power.

The current labor market situation reflects a continuation of shifting trends which started some months ago. Employment declines which became accentuated in the fall of last year in the manufacturing segments of the economy, as indicated by claims for State unemployment insurance, are persisting. However, it appears that retail trade, aside from normal seasonal reductions following the Christmas holidays, is still maintaining very high levels, while construction activities continue strong for this time of year. Overall, the labor markets of the Nation are characterized by fairly widespread employment curtailments and reduction in hours of work stemming from both normal seasonal influences and adjustments to changed market conditions. I do not wish to give an excessively pessimistic appraisal of the Nation's labor markets. In fact, there are many indications of inherent stability. My report of necessity concentrates on unemployment.

New unemployment among workers covered by State unemployment insurance programs increased in the fall months of 1953 and showed a further sharp increase in early January. Initial claims, which are notices of new unemployment, rose by nearly 56,000 during the first week in January to approximately 469,000 as the accompanying chart indicates—a volume exceeding that in any comparable week since the end of World War II. In the following 2 weeks, they declined seasonally by some 58,000 to 410,600 in the week ending January 23—still a postwar high for the week. As compared with the same periods in the past 2 years, initial claims were double those of a year ago and about 50 percent higher than the comparable week in 1952. Moreover, initial claims currently are 12 percent above the volume in the comparable period of 1950.

Insured unemployment, which shows continued unemployment among covered workers, also rose sharply in early January, following substantial increases in December 1953. Our experience for the past 3 years is indicated in the attached chart. Insured unemployment levels rose from approximately 1 million in November to 2,038,000 during the week ended January 16—the highest volume for the week since January 1950.

Senator DOUGLAS. Mr. Goodwin, are those figures confined to those actually receiving benefits or do they include those who have filed a claim for benefits?

Mr. GOODWIN. They cover those that have completed a week of unemployment.

Senator DOUGLAS. So that if you were to take the total figure of unemployment, you would have to add to that those who are experiencing the first week of unemployment, is that not true?

Mr. GOODWIN. Well, you have a lag of a week.

Senator DOUGLAS. That is right. In reference to these figures for those who are now receiving benefits or were receiving benefits, do they include the initial claims for benefits, those who have just been unemployed but have not completed the waiting period?

Mr. GOODWIN. No, it does not.

Senator DOUGLAS. It does not. What were the numbers who filed initial claims in that week?

Mr. GOODWIN. Wait a minute, I think I may have given you the wrong figure on the waiting period.

Senator DOUGLAS. I know it varies from State to State.

Mr. GOODWIN. Yes.

Senator DOUGLAS. But does this include those who file the initial claims or is it those who are entitled to benefits?

Mr. GOODWIN. The initial claim is merely a notice of unemployment.

Senator DOUGLAS. That is correct. But then there is a period of waiting, and so forth, or determination before the unemployed person receives a benefit. I am trying to find out if your figure of 2,038,000 includes those who have filed claims for benefits but not yet entitled to them or whether it does not?

Mr. GOODWIN. It represents all of those who have completed at least 1 week of unemployment.

Senator DOUGLAS. But it does not include those who have had the first week of unemployment?

Mr. GOODWIN. It doesn't include those that are in the initial claims group who have not completed the 1 week of employment.

Senator DOUGLAS. That is just what I wanted to bring out. How many were in those initial claims group?

Mr. GOODWIN. Well, for the week of—let me see, for the week of January 23——

Senator DOUGLAS. January 16th, let us make that the comparable week.

Mr. GOODWIN.——469,000 for that week.

Senator DOUGLAS. So you get a total of 2,038,000 who were receiving benefits, 469,000 filed claims for benefits,—I wish you would check my arithmetic—I make that 2,507,000. I would like to call attention to the fact—and I would like to have Mr. Eckler listen to this—that his figures of unemployment for, I think, the same period for the country as a whole, came to only 2,360,000. Now here the unemployment insurance figures indicate unemployment at 2,507,000. What percentage of coverage do you have? What percentage of the working force is covered by your unemployment insurance figures?

Mr. GOODWIN. Well, Senator, you cannot add those two figures, because the initial claims are merely the first notice of unemployment, and——

Senator DOUGLAS. Are the men at work?

Mr. GOODWIN. Not that day.

Senator DOUGLAS. Then they are unemployed, are they not? Can you say that men who are not at work, who file claims for benefits, are employed?

Mr. GOODWIN. The only figure, or rather the more reliable figure as far as counting unemployment is concerned is those who have completed a week of unemployment because——

Senator DOUGLAS. That is for insurance purposes. But during the week the man is not working and has lost his income, and by failing to take into account this first week of unemployment, you minimize the actual extent of unemployment. If you add that figure in, you get 2,507,000, and I would like to point out that that is higher than the total figure of unemployment given by Mr. Eckler by approximately 150,000, despite the fact, I believe, that your insurance system has coverage of only about 60 percent of all workers.

Representative PATMAN. Less than 60 percent.

What is the percentage coverage?

Mr. GOODWIN. There are 37,000,000 covered by the unemployment insurance program.

Senator DOUGLAS. Assuming a 61,000,000 working force, that would be approximately 60 percent, so that the only way you can reconcile your two sets of figures is that there are 150,000 surplus employment in the 40,000,000 people not covered by the insurance system which is, I submit, on the fact of it highly improbable.

May I ask also, what about those whose benefits have expired, who have either exhausted the maximum limit or benefits ranging from 18 to 26 weeks or who, in the previous year, did not have sufficient employment and whose benefits have expired, who have not yet found new jobs?

Mr. ECKLER. Mr. Senator, we hope to be able to discuss this after Mr. Goodwin has finished, but perhaps——

Senator DOUGLAS. I understand, but our time is short, and we might as well seize on these things as they develop.

Mr. ECKLER. Yes, sir.

Let me note that there has been a statement prepared which is, I think, before each member of the committee, and is available for the record, which reflects the results of a reconciliation of the relationships between these two series based on the work of the experts in each agency.

Now, there are a good many problems that have to be dealt with in achieving a comparison that is significant and in getting an answer to the figures you are presenting.

In the first place, certain deductions need to be made from the census series. For example, the unemployed who have never had a job would not be eligible for insured unemployment; the unemployed who are in uncovered—whose last job was in uncovered industry, as you pointed out.

On the other hand, it is desirable for the purpose of this comparison to add to the census unemployed the short term layoffs.

Senator DOUGLAS. You do not do that.

Mr. ECKLER. I beg your pardon.

Senator DOUGLAS. You do not do that, and in the figure which I gave, you did not do that. I merely took your total figure of 2,360,000 and compared it to these other figures.

Chairman WOLCOTT. Senator Douglas, may I call attention to the fact that there has been submitted a "comparison of Census Bureau estimates of unemployment and insured unemployment statistics" and you will notice a subnote on the first page says:

> Statement prepared by the Bureau of the Census of the Department of Commerce, and the Bureau of Employment Security of the Department of Labor, for the Joint Committee on Economic Report—

which Mr. Eckler has suggested be taken in consideration.

Senator DOUGLAS. I think it is highly important, Mr. Chairman, to take these matters up as we go along, otherwise we will just be deluged with them; we just do not have a chance to reconcile these in public hearings. This is not merely force feeding.

Chairman WOLCOTT. I merely want to call your attention to the fact that you find the facts in here.

Senator DOUGLAS. I want to have him give it verbally.

Mr. ECKLER. Mr. Chairman, may I proceed? I will make it brief.

For the purpose of establishing the relationship, we have made this addition, Senator, even though it is not part of our unemployed total. This is for the purpose of explaining the behavior of these two series. In the case of the insured unemployment series they have deducted from the total those who have partial or part total benefits. Those are people who would be reflected in our series as——

Senator DOUGLAS. As part-time unemployment.

Mr. ECKLER. As part-time employment.

When those adjustments are made, we get the results which are shown by the chart which appears at the rear of this exhibit that the chairman was calling your attention to and the movements are remarkably consistent, both with respect to level, turning points, and so on.

Now, that represents as good a job as our technical people were able to do in making these series comparable to each other. It is a long story to tell everything about it, but at least I have tried to give the highlights.

Mr. GOODWIN. Would you like me to proceed?

Chairman WOLCOTT. Yes.

Mr. GOODWIN. While the current level of insured unemployment is some 350,000 below the comparable period in 1950, it is nearly 875,000 greater than the volume for the same week last year.

Since preparing this statement, Mr. Chairman, we have some later figures which I would like to give to you. The initial claims for the week ending January 30, information on the week ending January 30, which has just become available, shows that the number of initial claims declined again for the third consecutive week to a level of 377,800. This decline was seasonal, but the level of initial claims was 90 percent above that of the last week of January of last year, and was 14 percent above the corresponding week in 1950.

Senator DOUGLAS. What was the total for the insured unemployment?

Mr. GOODWIN. I get to that next, Senator.

The declines were fairly widespread, with 36 States showing a drop. In South Carolina, however, initial claims rose more than a thousand during the week because of layoffs in the textile industry.

In Michigan claims volume remained unchanged in the Detroit area, which accounts for two-thirds of the State's total, and rose slightly in the other parts of the State.

Now, on insured unemployment, which is for the week ending January 23, the latest information shows that during the week ending January 23 insured unemployment rose for the ninth consecutive week to a level of 2,104,000, a rise of 66,200.

During the week insured unemployment was above that of any comparable week in the post-war period, excepting that in 1950, when insured unemployment was merely 2,400,000.

Thirty-six States showed an increase in insured unemployment between the week of January 16, and that of January 23, the largest increase occurring in Michigan.

In Michigan, insured unemployment rose 17,900 during the week, as auto workers laid off 2 weeks earlier remained unemployed.

Heavy snows caused a rise of 6,700 in the State of Washington, and 3,600 in Oregon.

General business conditions was given as the reason for increases in Tennessee, Minnesota, and Louisiana.

The recent increase in both new and insured unemployment has varied widely by State, industry, and area.

Senator DOUGLAS. Mr. Goodwin——

Mr. GOODWIN. Yes, sir.

Senator DOUGLAS. You gave the figure of new claims for the week ending January 30, and the figure for total insured unemployment for the week ending January 23. Do you have a figure for the total insured unemployment for the week ending January 30?

Mr. GOODWIN. No. The reason for that, Senator, is because there is the delay in the insured unemployment figure, the one we were just discussing a few minutes ago.

Senator DOUGLAS. That would be appreciably higher than the week ending January 23, because you would have the accretions of those who were claimants in preceding weeks, but who had now become benefit recipients in that week.

Mr. GOODWIN. From these figures, we judge it would be somewhat higher, but you cannot necessarily conclude that it would be higher because there may be some of them that returned to work.

Senator DOUGLAS. Have you made any study of the numbers who have exhausted their claims to benefits over the years but are not able to find employment?

Mr. GOODWIN. Yes, we have. We have had some studies on that. Right at this period of time, it would not be a large percentage of the work force. If unemployment remained high over a long period of time, that would be a very significant factor.

Senator DOUGLAS. Do you have any estimate as to the number who have been dropped from receiving benefits because they have exhausted their claims for eligibility while they are still registered in public employment offices as seeking work?

Mr. GOODWIN. Let me ask Mr. Levine if we have anything recently on that.

Mr. LEVINE. We have no recent figures on that, Senator, but the problem is concentrated in a few States where unemployment has been characteristic over a long period of time. Massachusetts, for example—some of the communities in Massachusetts, just to take one State—would have a considerable number of exhaustions, but for the Nation as a whole it would be extremely low.

Senator DOUGLAS. Do you have any estimate—that might run into several hundred thousand, might it not?

Mr. LEVINE. I am guessing offhand, but I question seriously if it would even approximate at this stage one hundred thousand.

Mr. GOODWIN. Seasonal employment patterns have become more pronounced following the tight labor market situations prevailing in recent years.

Returning to a competitive market where supply is sufficient for demand in virtually every sector of the economy, including manpower, has made it possible for seasonal forces to come into full swing. This has been an important factor which explains the uneven pattern in the increase of unemployment-insurance claims loads, among States, industries, and areas.

However, the adjustments which the economy is currently experiencing also account for much of the increase in unemployment. Thus, farm-equipment manufacturers were among the first in urban labor markets to undergo inventory adjustments.

On the other hand, automobile manufacturers began making adjustments in the latter part of 1953 as sales slowed down and dealer inventories mounted. Heavier than usual layoffs occurred in this industry toward the end of the year, particularly in Michigan. The declines in the automotive industry had a direct impact on automobile suppliers, such as battery manufacturers and producers of tires. This had a particular impact on States, such as Ohio, where auto parts and supplies and the rubber industry are of major importance. The steel industry, which is vitally affected by the level of activity in automobile manufacturing, also initiated some adjustments in the latter part of 1953. Soft-goods industries, such as apparel and textiles and, later, shoes, showed evidence of employment weaknesses in the fall of 1953, as the customary upturn in employment failed to materialize. Contra-seasonal declines occurred in these industries and contributed to sizable layoffs. While employment in the textile industry as a whole has moved sharply downward, our reports indicate that layoffs have been heavier in the New England region and in woolens and worsteds. In recent weeks a number of workers in the railroad industry have been laid off as freight traffic experienced a decline.

The current adjustments in durable-goods manufactures—autos, military hardware, steel, heavy industrial machinery, machine tools, railroad equipment, and farm machinery have caused increased volumes of layoffs and unemployment benefit claims in the industrial centers of the North Central States of Michigan, Illinois, Indiana, Ohio, and parts of Iowa and Missouri. Cutbacks in textiles have had an impact not only on the New England area but also on southern textile areas. Seasonal declines in outdoor activities have affected many areas. The Pacific Northwest, in particular, appears to be experiencing a sharper rise than is usual for this time of year in the volume of insured unemployment.

In January, as indicated in the attached map, insured unemployment for the Nation as a whole amounted to 5.5 percent of average covered employment. This compared with national averages of 3.4 percent a year ago, and 7.3 percent in January 1950. As shown by the map, the rates of insured unemployment currently vary widely among the States, ranging from a low of 2.1 percent in Texas to a high of 12.7 percent in Oregon. Washington and Idaho, respectively, had the second and third highest rates in the Nation, followed by Rhode Island, Tennessee, and Mississippi. In each of these States, the insured unemployment percentages amounted to more than 9. The rates ranged between 6 and 8.9 percent in 12 States, between 4 and 5.9 percent in 19 States, and between 2 and 3.9 percent in 12 States.

CHARACTERISTICS OF UNEMPLOYMENT

Currently, more than 9 percent of the over 2 million insured unemployed workers are claiming benefits for partial unemployment, weeks in which workers earned substantially less than their normal pay because of reduced hours. This proportion has not varied too significantly during the past year ranging from a low of 7 percent in the early part of the year to a high of approximately 10 percent in the fall. Maine, currently, has the highest proportion of partial employment in the Nation—16.3 percent—followed by Missouri with 15.8 percent, New Hampshire with 14.2 percent, and Georgia with 13.8 percent. These high proportions reflect for the most part reduced workweek schedules in the textile, apparel, and shoe industries.

While reductions in hours of work have not been sufficiently large nationwide to show up in a sizable increase in the proportion of claims filed for partial unemployment benefits, reports from State employment security agencies indicate that intermittent unemployment is rising and that the duration of unemployment is increasing. Sizable numbers of workers laid off in November and early December have not been recalled to work as yet, contrary to their usual experience in the past several years when they were involved in temporary seasonal layoffs.

Women account for about two-fifths of the insured unemployment currently—about the same proportion as a year ago. However, in the New England States, New York, New Jersey, the Carolinas, and Georgia, women account for a larger proportion of the insured unemployed than is the case for the Nation as a whole. Such industries as textiles, apparel, leather products, and tobacco processing, which normally employ a high proportion of women, are important in these States.

The Bureau, on the basis of reports regularly submitted by the State agencies, classifies 149 of the Nation's major industrial centers according to their relative adequacy of labor supply. By mid-January, the declines in national employment totals which had characterized the closing months of 1953 were being felt in almost all of the Nation's major labor markets. However, the increases in unemployment, although widespread, continued to be held to rather moderate proportions in all but a few labor-market areas. In only 18 were the increases in unemployment of sufficient magnitude to warrant a change in the Bureau's January classification.

Senator DOUGLAS. By the way, what happened to Detroit in the January classification?

Mr. GOODWIN. Detroit went from a 2 to a 3 in the January classification.

Senator DOUGLAS. It became more severe?

Mr. GOODWIN. Pardon?

Senator DOUGLAS. It became more severe, that is, an ascending order?

Mr. GOODWIN. Yes. That is right, sir.

Senator DOUGLAS. What happened to the quad-city area, Rock Island, Moline——

Mr. GOODWIN. It remained as a three. As a matter of fact, in the quad-city area, Senator, there was some indication of improvement, particularly in the farm-machinery industry.

Representative BOLLING. Group 3, what does that represent in percentage?

Mr. GOODWIN. Group 3 represents a moderate percentage of unemployment, and on a percentage basis, it is 3 to 6 percent.

Senator DOUGLAS. You say unemployment in Detroit and the Rock Island area is less than 6 percent?

Mr. GOODWIN. 5.5, is my recollection—not in Detroit; that is Rock Island. It is 5.5, is the last figure there.

In Detroit there was indication on our most recent information from Michigan that the rate was above 6 percent, slightly above 6 percent. It was not clear as to what kind of—or rather let me put it this way, it was not clear as to whether it was going to continue or whether there were a substantial number of very short-time layoffs. In our classification of areas, we do take into account what is likely to happen, we take into account the estimates of the trend, whether it is going up or down, so what we did in the Detroit situation was request the State agency to resurvey the area immediately. That information will be available very shortly.

Senator DOUGLAS. So that on the basis of these figures which you had, dealing purely in percentage times, Detroit should have been in class 4, and it was a seasoning of hope, so to speak, which you sprinkled on your figures, which made you put it in class 3.

Mr. GOODWIN. There were a number of layoffs, Senator, where there was indication that they would be back at work within a period of 10 days or so.

Senator DOUGLAS. May I say that what is characteristic in great industrial centers, is that men will be told they are on a layoff of 10 days, but at the end of the week or 10 days they are not called back, and I can say that is precisely what happened in the farm equipment industry in Rock Island, because I made several visits into that area, and I found that people were told the 1st of November that they were being laid off a week simply for taking inventory. When the week was over they did not come back. I mean, it is a soft and humane way of breaking the blow, what was the percentage which you found for Detroit?

Mr. GOODWIN. This was as of about January—the first few weeks of January, I think it was January 10 or 11, around there, and it was slightly above 6 percent.

Senator DOUGLAS. 6.2?

Mr. GOODWIN. I believe it was 6.2; yes.

Senator DOUGLAS. So that what you did was not to follow the figures but to say:

> We believe this will be temporary so we will not classify it in class 4.

Mr. GOODWIN. That is not what we said. We said the picture is not clear, and that we would like to have it resurveyed to determine whether this unemployment is of very temporary character or whether it is going to last.

Now, if this survey shows that the figures are still above 6 percent, and if it shows it is not short-time unemployment, we will reclassify the area immediately. In other words, we will not wait the 2 months for the regular classification period.

Senator DOUGLAS. May I ask this: Do you ever resurvey areas where the unemployment figure is lower or only where it seems to be high?

Mr. GOODWIN. The pressure is the other way, because——

Senator DOUGLAS. May I exert a little counteracting pressure in asking you to resurvey the Rock Island area. If you resurvey the Detroit area because it is 6.2 percent, and you think it is less, now I ask you to resurvey the Rock Island area because I believe your figure of 5.4 percent is too low.

Mr. GOODWIN. We will be glad to do it.

Senator DOUGLAS. Good.

Representative BOLLING. Mr. Goodwin, what was the last report on Detroit; was it group 3 or group 2?

Mr. GOODWIN. The report was—it just came out last week, and it was group 3.

Representative BOLLING. The one before that?

Mr. GOODWIN. The one before that it was 2. There has been a very rapid change in the Detroit situation in that 2-month period.

Chairman WOLCOTT. There seems to be a great deal of optimism in the Detroit area in view of the fact that General Motors is expanding its plant by about a billion dollars, and Ford has come out and said that they would produce more Fords than Chevrolet this month, so I do not think we will allow it to carry on.

Representative BOLLING. If I may comment on that, I understand my area of Kansas City will get some part of General Motor's expansion, and I believe my area has just moved into group 3.

Chairman WOLCOTT. We do not want you to take away too much from Detroit; we just want you to get a share of it.

Mr. GOODWIN. As can be seen from the attached area map, the net effect of these classification shifts has been to reduce the labor shortage areas to only one—Hartford, Conn.—and those in the balanced labor supply category to 49. Together these 50 areas account for 31 percent of all workers in major classified areas. Last November, 2 areas were characterized by labor shortages and 63 by balanced labor supplies, together accounting for 44 percent of all workers in the major areas. Currently there are 79 areas which have moderate labor surpluses and

20 major areas which have substantial labor surpluses. These 99 areas contain 69 percent of all the workers in the area classified by the Bureau. By contrast in November 1953 areas with labor surpluses totaled 84 and accounted for only 56 percent of the total number of workers in all classified areas.

Despite the adjustments currently being experienced, the labor market, nationally, continues basically strong. Much of the employment reduction taking place at present is directly attributable to the return of normal patterns. As employment rises seasonally in the months ahead, it is expected that claims volumes will tend to fall off. It should be emphasized that a number of stabilizing features support the strength of our present economy. Among these is the employment security system. By providing a backlog source of income for purchases of essential goods and services, the unemployment insurance system cushions the impact of unemployment on the individual and his family. Some aspects of the system need modernization, as indicated in the President's Economic Report, but even with the present limitations the system is helping to sustain the worker's purchasing power, and is slowing down the spreading effects of economic downturn. The Employment Service contributes to this process by helping the unemployed worker find another job as smoothly and rapidly as possible.

Some idea of the value of unemployment insurance payments in maintaining purchasing power is indicated by the fact that in 1949 when we were in a recession, benefit payments amounted to $1,736 million.

In examining the condition of the Nation's labor markets currently, it is important for the sake of a clearer perspective to review the developments in the past year which have led to our present situation.

The year 1953 was one of record prosperity. More people were employed than ever before and unemployment fell to a new postwar low. The labor market generally reflected the highly favorable economic developments in personal income, savings, industrial production, and total output of goods and services.

The year was marked by expanded utilization of manpower and industrial resources, increases in productive capacity, a rise in living standards, and a greater overall stabiilty in the cost of living. 1953 was also a year of transition—during which the economy shifted from a period of material and manpower shortages, induced by the defense buildup following Korea, to one in which labor supply in all occupations except a few professionals was adequate for demand. The change to a more competitive market meant adjustments, affecting many sectors of the economy and having an impact on the labor market—on workers and jobs.

The first half of the year, following the lifting of most material controls and an easing of supplies for the manufacture of consumer goods, was characterized by steadily rising economic activity. The demand for workers expanded and job opportunities were plentiful. The second half of the year was marked by a mild easing in labor demand. The Armed Forces had achieved their planned manpower strength and many of our defense requirement goals had either been reached or were close to attainment. New Government orders for defense equipment and supplies were slowing down.

The cutbacks in defense orders were but one facet of the labor market picture in the latter half of 1953. As the fall approached, it became evident that sales and production were failing to show their usual upswing. Temporary, short-term layoffs began to rise more markedly than usual and claims for unemployment insurance rose at a faster rate than could be explained by normal seasonal developments. Unemployment among workers covered by State unemployment insurance laws increased from 760,000 at the beginning of October to 1,401,000 in mid-December. Labor supplies in major production and employment centers showed a further easing—a trend which began around midyear. Toward the end of the year (November), of 149 major labor market areas surveyed, 129 had either a balanced labor supply or a moderate surplus, 18 had substantial labor surplus and only 2, as compared with 5 in May 1953 and 4 in November of the previous year, were classified as areas of labor shortage.

The adjustments that took place in the last part of 1953 were generally mild and orderly, and were not sufficient to offset for the year as a whole, the gains marked up in the first 6 months.

With respect to unemployment insurance operations, local offices handled more than 11.3 million initial claims for unemployment benefits under State programs—some 2 percent more than in 1952—and took continued claims for nearly 51.5 million completed weeks of unemployment—5 percent fewer than in the previous year. Some 4.2 million claimants received 1 or more benefit checks during 1953 and a total of $962 million was paid out in benefits. Both the latter figures were below those for 1952 by 4 percent. The weekly benefit amount averaged $23.58—up from $22.79 in the previous year—and the average period for which benefits were drawn amounted to 10.1 weeks, as compared with 10.4 weeks in 1952. Under the special program of unemployment compensation for veterans with service in Korea, local public employment offices paid out approximately $41.7 million to some 168,000 such veterans who drew one or more benefit checks.

A great deal has been said and written in the last few weeks about the adjustments that are now occurring in the economy. Opinions differ as to whether the recent decline in employment and the rise in unemployment are merely temporary or whether they are the beginnings of a downward movement which may continue for many months. All forecasters agree that over the long run, the American economy will expand. The area of disagreement lies in what is expected to happen in the next 12 to 18 months. The more optimistic view expects that the current adjustments will be completed within a very few months and that an upward trend in production and employment will begin thereafter. The pessimistic view expects that the individual downturns that are now occurring in the various segments of the economy may have a cumulative impact which will approach the experience of the so-called inventory recession of 1949 and early 1950 in depth and duration.

I am not going to predict what will happen in the economy, instead I wish to present two different patterns of economic activity. One is that used in the preparation of the employment service and unemployment insurance workload estimates for budget purposes for the rest of this fiscal year and for 1955. The other is a pattern which reflects the downturn experienced in fiscal year 1950. These economic patterns are of more than passing interest to State employment security agencies since labor market conditions determine the nature and volume of workload activities.

We are preparing a revision of the workloads for the last half of fiscal year 1954 based on the assumption that unemployment, for this period, will average 2.6 million. During the first 6 months of the current fiscal year, unemployment averaged 1,400,000. Part of the anticipated rise in total unemployment during the second half of the fiscal year is due to seasonal factors—the second half generally averages about 200,000 more than the first half—and the remainder of the increase is expected to occur as the economic adjustment process continues. We have assumed that average weekly insured unemployment for the fiscal year as a whole would be 1,400,000 or about 3.8 percent of covered employment.

With respect to fiscal year 1955, the workload estimates are based upon the assumption that employment will expand enough to absorb an increase of 400,000 in the civilian labor force and that unemployment will average 2 million for the year as a whole.

In order to expand average employment by 400,000 during fiscal year 1955 and to keep unemployment to an average of 2 million, the present adjustments in the economy will have to be completed early in the new fiscal year and be followed by a fairly rapid expansion. Such a development is entirely possible but would necessitate a very rapid expansion of economic activity.

Another pattern of economic development can be found in the experience of 1949–50, a period which was subsequently labeled as one of "inventory recession." The characteristics of the present economy differ from those of that period in several important respects, but because it represents the most recent period of adjustments, it may be well to note what happened to employment and unemployment in fiscal year 1950.

During fiscal year 1950, total unemployment averaged 3,738,000, or 6 percent of the civilian labor force. For the fiscal year as a whole, insured unemployment averaged 2,033,100, or 6.2 percent of covered employment.

State and local employment office reports, as well as the information given them by major employers, seem to indicate that the present adjustment period is not likely to be as severe as that which I have just described for 1949–50. Rather they are cautiously optimistic that the recent employment downtrend may be checked my mid-March as the usual seasonal pickup begins. In general, however, any pickup anticipated is in terms of a return to the employment levels of 1953.

If these reports from the field are correct, there is considerable possibility that the employment and unemployment levels for fiscal year 1955 might fall somewhere between those underlying our workload estimates and those experienced in fiscal year 1950.

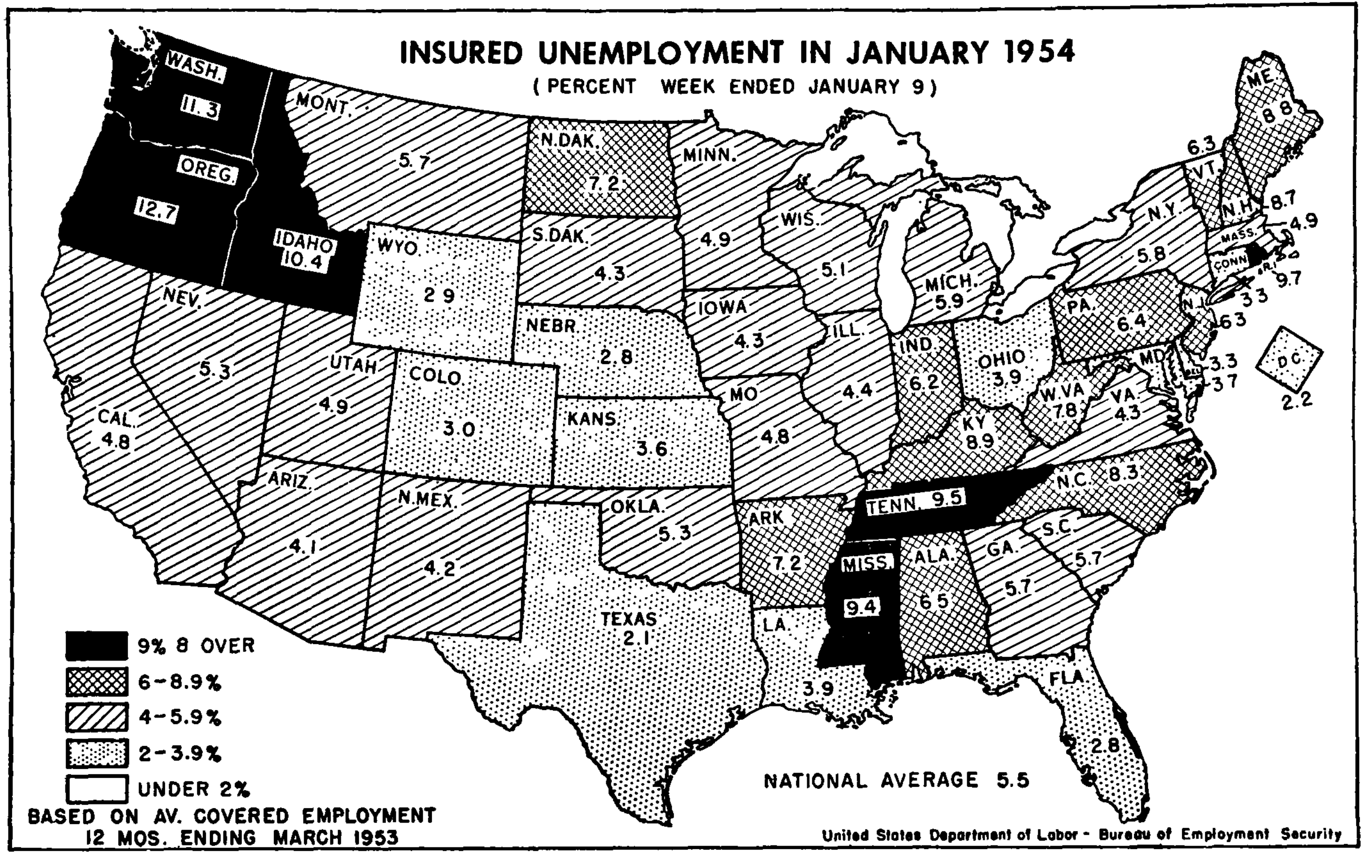
Before I close, I would like to summarize the characteristics of our insured unemployment data as an indicator of what is happening in the economy. Technical elaboration of this point is included in a separate statement which I am submitting to the committee.

The Bureau publishes figures on insured unemployment weekly from data reported by the affiliated State employment security agencies. These figures indicate the number of unemployed persons claiming benefits under these programs during the specified calendar week. In addition to the completely unemployed, they include persons drawing less than total benefits for part-time work or earnings below a given minimum. They do not include persons who exhausted their benefit rights or unemployed workers in industries not covered by State programs. The groups not covered are agricultural workers, government employees, self-employed, domestic servants, employees of nonprofit organizations, workers in very small firms—in most States—and railroad workers; the latter have a separate unemployment insurance system under the Railroad Retirement Board.

Insured unemployment data have been extremely valuable in quickly reflecting national economic trends. Although there are some variations in the coverage provisions among the States, they all cover the same major segments of the national economy. Currently, about 37 million, or three-fourths of all nonagricultural wage and salaried workers, are in covered employment. The data, therefore provide a highly useful measure of the economic changes in the more important nonagricultural activities. Moreover, they are the only major series on unemployment available on current weekly basis, not only for the Nation as a whole, but also for individual States.

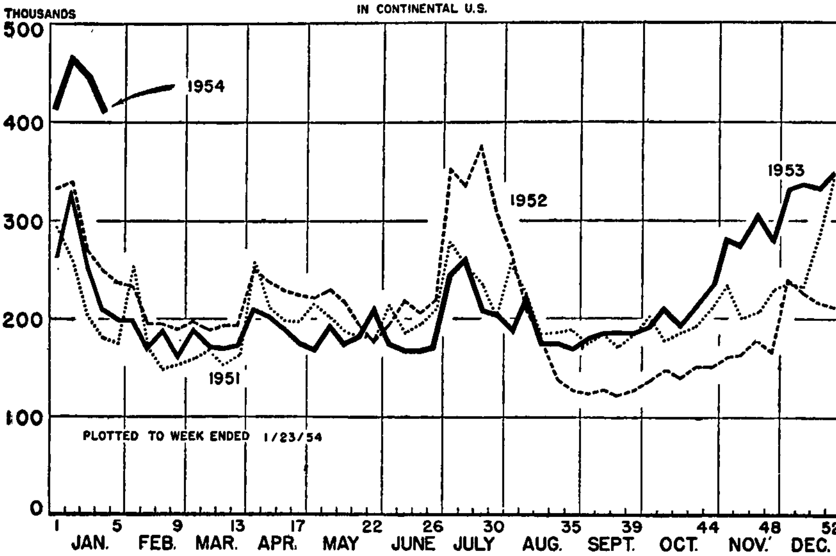
This concludes my testimony, Mr. Chairman. In addition, I am, as I indicated, submitting to the committee additional material, including a considerable volume of statistical information, together with maps, charts, and technical notes. Thank you very much.

(The charts referred to follow:)


INSURED UNEMPLOYMENT IN JANUARY 1954
(PERCENT WEEK ENDED JANUARY 9)
WASH. 11.3
OREG. 12.7
IDAHO 10.4
MONT. 5.7
WYO. 2.9
N.DAK. 7.2
S.DAK. 4.3
MINN. 4.9
NEBR 2.8
IOWA 4.3
WIS. 5.1
MICH. 5.9
N.Y. 5.8
ME. 8.8
VT. 6.3
N.H. 8.7
MASS. 9.7
CONN
R.I.
4.9
3.3
6.3
3.3
3.7
PA. 6.4
N.J.
MD.
DEL.
D.C. 2.2
NEV. 5.3
CAL. 4.8
UTAH 4.9
COLO. 3.0
KANS. 3.6
MO 4.8
ILL. 4.4
IND. 6.2
OHIO 3.9
W.VA 7.8
VA. 4.3
KY 8.9
ARIZ. 4.1
N.MEX. 4.2
OKLA. 5.3
ARK 7.2
TENN. 9.5
N.C. 8.3
S.C. 5.7
TEXAS 2.1
LA. 3.9
MISS. 9.4
ALA. 6.5
GA. 5.7
FLA. 2.8
9% & OVER
6-8.9%
4-5.9%
2-3.9%
UNDER 2%
BASED ON AV. COVERED EMPLOYMENT
12 MOS. ENDING MARCH 1953
NATIONAL AVERAGE 5.5
United States Department of Labor - Bureau of Employment Security

INITIAL CLAIMS BY WEEKS, 1951-1954

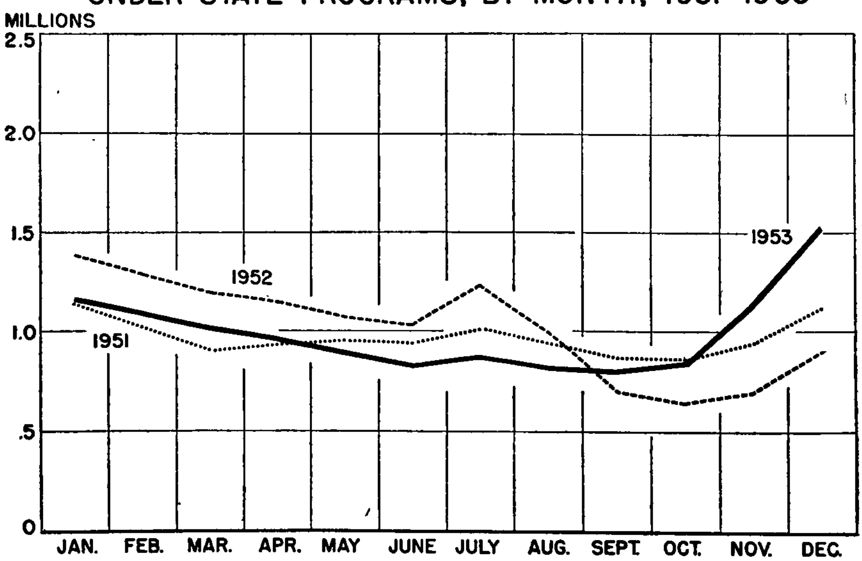
IN CONTINENTAL U.S.



NOTE: DATA REFER TO STATE UNEMPLOYMENT INSURANCE PROGRAMS ONLY, EXCLUDE TRANSITIONAL CLAIMS

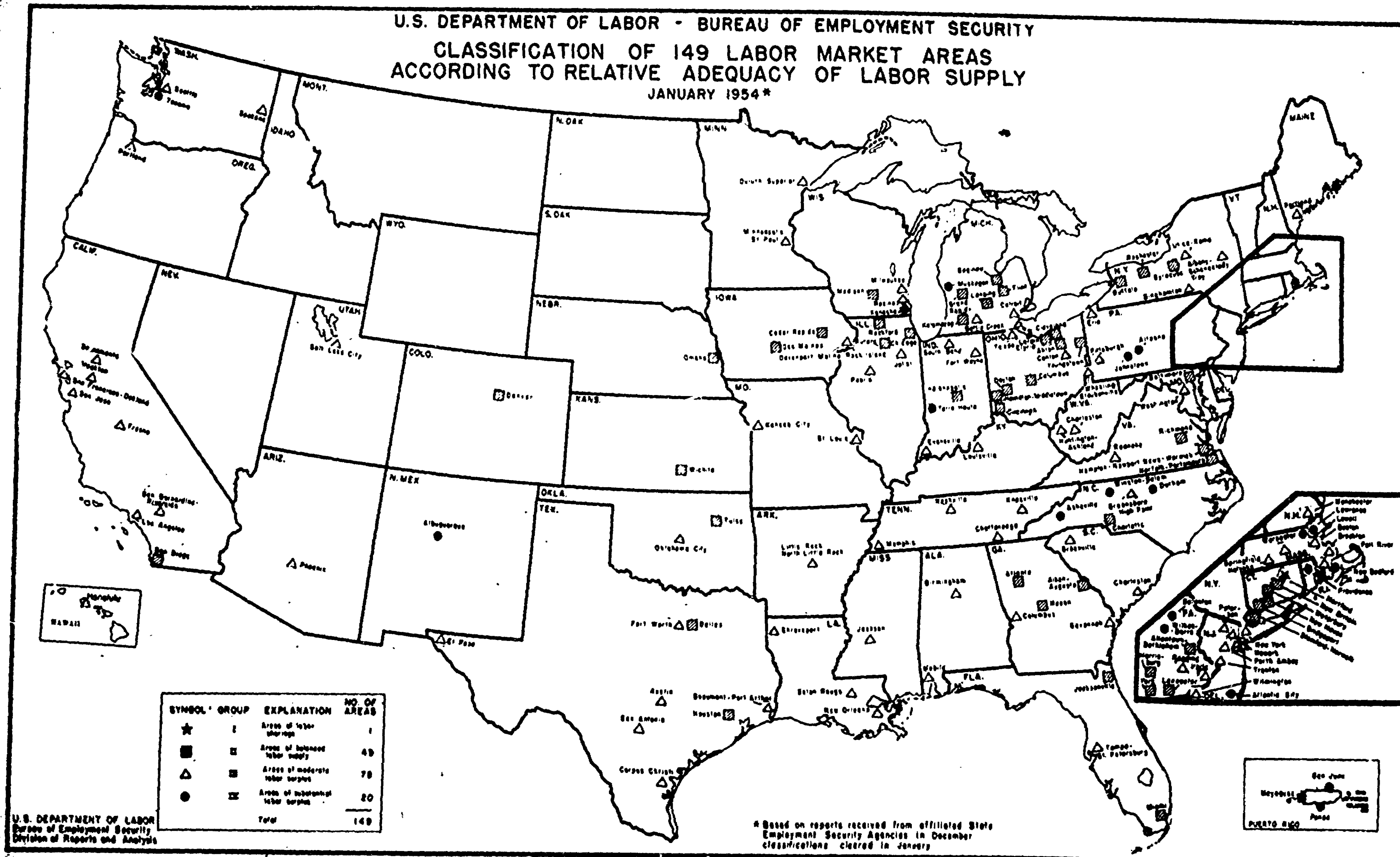
UNITED STATES DEPARTMENT OF LABOR
Bureau of Employment Security
Division of Reports and Analysis

AVERAGE WEEKLY INSURED UNEMPLOYMENT[1] UNDER STATE PROGRAMS, BY MONTH, 1951-1953



1/ WEEKLY DATA ARE ADJUSTED FOR SPLIT WEEKS IN THE MONTH ON THE BASIS OF A 5-DAY WORK-WEEK.

UNITED STATES DEPARTMENT OF LABOR
Bureau of Employment Security
Division of Reports and Analysis



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Chairman WOLCOTT. Thank you, Mr. Goodwin. Without objection, that supplemental statement may be included, and all the charts accompanying it, as well as the Comparison of Census Bureau Estimates of Unemployment and Insured Unemployment Statistics. That is the statement of the Bureau of the Census, the reconciliation between the Bureau of the Census and the Bureau of Employment Security.

(The documents referred to follow:)

COMPARISON OF CENSUS BUREAU ESTIMATES OF UNEMPLOYMENT AND INSURED UNEMPLOYMENT STATISTICS [1]

The Bureau of the Census of the Department of Commerce, through its monthly sample survey of the population, provides national estimates of all unemployed persons during the calendar week containing the 8th of each month. The unemployment count is based on information obtained from interviews with a representative sample of households throughout the country. Classified as unemployed are all civilians 14 years of age and older who did not work for pay or profit during the week but who were reported as looking for work. Persons who would have been looking for work except that they were temporarily ill, they were waiting to be called back to a job from which they had been laid off for an indefinite period, or they believed that no work was available in their community or in their line of work, are also classified as unemployed.

The Bureau of Employment Security of the Department of Labor publishes each week figures on insured unemployment, compiled from the operating statistics of the State unemployment-insurance system, unemployment compensation for veterans, and the railroad unemployment program. These figures indicate the number of persons claiming benefits under those programs for unemployment during the specified calendar week. In addition to the completely unemployed, they include persons claiming partial or part-total benefits for part-time work or earnings below a given minimum. They do not, of course, include persons who have exhausted their benefit rights, or unemployed workers in industries not covered by the insurance system (agriculture, government, domestic service, self-employment, unpaid family work, nonprofit organizations, firms below a minimum size).

Because of the difference in coverage, the Census Bureau figures on total unemployment exceed the insured unemployment figures and do not always move in the same direction or by the same amount. For example, total unemployment always rises sharply at the end of the school year when young workers start looking for jobs; in many cases they have no benefit rights and will not appear in the claims figures. Again, persons who have exhausted their benefits will drop out of the insured figures but may continue in the census total if they report that they are looking for work. Finally, reports for some persons to the census enumerator may not be consistent with the administrative or legal determinations of the insurance system.

It is possible by means of somewhat rough adjustments to eliminate the major differences in coverage. Table 1 and chart 1 present these adjusted figures. From the census series have been subtracted unemployed persons who have never had a full-time job or whose last reported job was in an industry apparently not covered by unemployment insurance. From the insured unemployment total the estimated numbers drawing partial or part-total benefits have been subtracted in order to eliminate persons doing any work during the week. Persons on temporary layoff from nonagricultural jobs with definite instructions to return to work within 30 days are classified by the Census Bureau as employed unless they are reported as looking for other jobs. The extent to which persons on temporary layoff are claiming benefits is not known. It is probable that the number may be considerable at certain periods, and for that reason this group has been added to the census figure to improve comparability. The number added ranges from 50,000 to 280,000; in December 1953 it was 195,000.

For most of the time during the period of 1949–53 the two adjusted series have moved in the same direction and frequently by approximately the same amounts. (Small changes in the census series are not significant because of sampling variability.) The recent turning point was October 1953, according

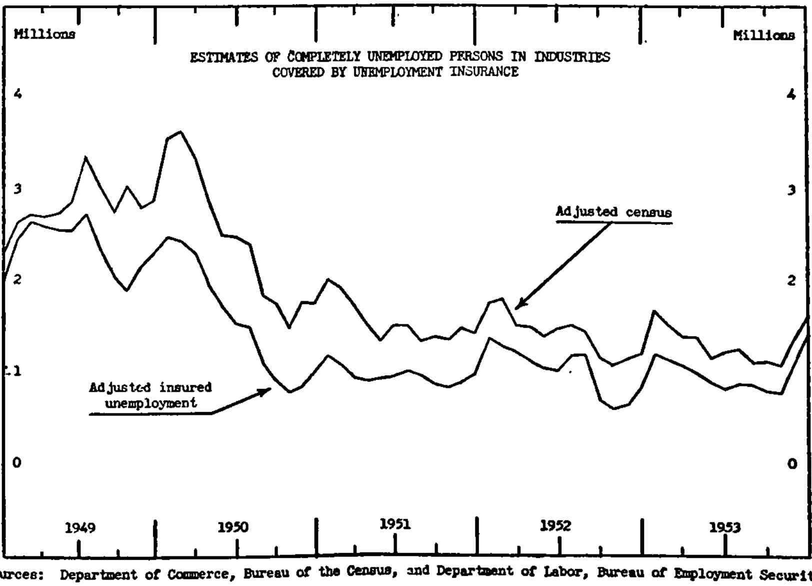
[1] Satement prepared by the Bureau of the Census of the Department of Commerce, and the Bureau of Employment Security of the Department of Labor, for the Joint Committee on the Economic Report.

to both, and the October–December rise was of the same order of magnitude, as was the December 1952–December 1953 change. This similarity exists despite the fact that the adjusted census figures still include some persons whose last job was not in an establishment covered by the insurance programs, or who were currently ineligible for benefits. The latter group tends to be relatively large in periods of prolonged high unemploment, when workers exhaust their benefits but remain jobless, and, conversely, in periods of very low unemployment, when the abundance of jobs attracts persons into the labor force to seek employment who have not accumulated benefit rights.

It is possible that the adjusted census and insured unemployment series may differ in part because of the inclusion in the census figures of persons whose last jobs were in covered industries but not in establishments covered by the insurance program. Table 2 gives a series of estimates derived from census unemployment rates for experienced workers by industry group (that is, the proportion of all wage or salary workers in a given industry group who are unemployed). These rates were applied to the estimated insured labor force for each month, industry by industry, and an adjustment made for persons on temporary layoff. The changes in these derived estimates of unemployment for covered establishments have been generally consistent with those in the insured unemployment figures for the past 2 years. This is further evidence that even though the two measures are derived from widely different sources (State administrative records, on the one hand, and personal interviews by census enumerators with a small sample of households, on the other) they show a remarkable similarity when converted to a comparable basis.

The adjusted census figures in table 1 and table 2 still include two groups of persons who may not be eligible to file claims, and who are, therefore, not in the insured unemployment figures: (1) Unemployed persons who are experienced workers but who have only recently reentered the labor force, and (2) unemployed persons who may not have worked long enough in covered employment to file claims. Since these two groups cannot be identified in the census figures, no adjustment could be made for them.

The Bureau of the Census has been developing a new sample design for the current population survey which will extend the coverage to 230 sample areas instead of the present 68 areas, although retaining the same overall sample size of some 25,000 households. It is conceivable that the results of the new design may throw additional light on the character and volume of unemployment. It is believed that the new sample will provide estimates of greater reliability for most important economic and population characteristics; for example, it may more accurately reflect "pockets" of unemployment which are unevenly distributed around the country.



Sources: Department of Commerce, Bureau of the Census, and Department of Labor, Bureau of Employment Security

TABLE 1.—*Estimates of completely unemployed persons in industries covered by unemployment insurance, census and insured unemployment, 1949–53*

[In thousands]

Month	1953		1952		1951		1950		1949	
	Adjusted census unemployment	Adjusted insured unemployment	Adjusted census unemployment	Adjusted insured unemployment	Adjusted census unemployment	Adjusted insured unemployment	Adjusted census unemployment	Adjusted insured unemployment	Adjusted census unemployment	Adjusted insured unemployment
January	1,640	1,179	1,738	1,331	1,993	1,157	3,559	2,479	2,315	2,016
February	1,488	1,118	1,774	1,255	1,893	1,048	3,635	2,433	2,647	2,448
March	1,362	1,048	1,486	1,199	1,704	913	3,331	2,303	2,722	2,635
April	1,364	972	1,464	1,092	1,470	887	2,873	1,954	2,695	2,591
May	1,136	874	1,360	1,029	1,315	896	2,496	1,722	2,735	2,549
June	1,202	808	1,446	990	1,482	919	2,474	1,538	2,866	2,548
July	1,230	858	1,488	1,161	1,476	983	2,384	1,472	3,346	2,724
August	1,082	844	1,418	1,161	1,306	921	1,837	1,108	3,031	2,335
September	1,093	785	1,140	687	1,352	838	1,734	900	2,743	2,059
October	1,053	754	1,060	589	1,324	796	1,468	763	3,032	1,898
November	1,348	1,076	1,138	628	1,446	841	1,734	825	2,804	2,152
December	1,594	1,393	1,182	822	1,396	944	1,732	979	2,877	2,303

Adjustments:

Census-unemployed persons minus those who never had a full-time job or whose last reported job was in agriculture, government, domestic service, self-employment, or unpaid family work; added to the unemployed are persons laid off from nonagricultural jobs with instructions to return to work at a definite date within 30 days.

Insured. unemployment-State insured unemployment, unemployment compensation for veterans, and railroad unemployment program, minus estimated number who did any work during the week (partial and part-total employment). Proportion of weeks compensated during the month by the State unemployment insurance systems for total unemployment assumed to be proportion of benefit recipients who did no work.

Sources: Department of Commerce, Bureau of the Census, and Department of Labor, Bureau of Employment Security.

TABLE 2.—*State-insured unemployment and estimated unemployment for State insurance—Covered industries based on census unemployment rates for experienced wage and salary workers, 1952–53*

[In thousands]

Month and year	Unemployment for covered industries based on adjusted [1] Census unemployment rates		State insured unemployment		
			Total unadjusted	Adjusted for partial and part—total claims	
	Number	Percent of insured labor force		Number	Percent of insured labor force
1952: January	1,504	4.2	1,420	1,285	3.6
February	1,517	4.2	1,307	1,202	3.3
March	1,298	3.6	1,245	1,160	3.2
April	1,302	3.6	1,152	1,062	2.9
May	1,219	3.4	1,101	1,003	2.8
June	1,284	3.5	1,044	947	2.6
July	1,326	3.7	1,190	1,083	3.0
August	1,253	3.4	1,193	1,097	3.0
September	1,155	3.1	711	655	1.7
October	940	2.5	620	562	1.5
November	1,034	2.8	647	584	1.6
December	1,030	2.7	840	764	2.0
1953: January	1,407	3.8	1,205	1,096	3.0
February	1,258	3.4	1,100	1,026	2.8
March	1,156	3.1	1,030	958	2.6
April	1,196	3.2	982	897	2.4
May	996	2.7	899	817	2.2
June	1,025	2.7	840	762	2.0
July	1,064	2.8	882	808	2.1
August	976	2.6	859	792	2.1
September	976	2.6	811	734	1.9
October	935	2.5	783	703	1.9
November	1,187	3.1	1,107	1,003	2.7
December	1,403	3.7	1,402	1,264	3.3

[1] Includes adjustment for persons on temporary layoff from nonagricultural jobs with instructions to report to work at a definite date within 30 days.

Exhibit 1

Average weekly insured unemployment [1] under State programs, by State,[2] by month, 1952

State	1952					
	January	February	March	April	May	June
Total	1,384,144	1,284.131	1,192,275	1,143,946	1,075,536	1,024,901
Alabama	15,622	15,110	14,921	14,982	15,885	20,084
Arizona	3,018	3,242	3,123	2,489	1,901	1,644
Arkansas	15,133	15,508	14,165	11,349	7,390	5.781
California	142,044	148,038	144,214	122,207	111,117	93,074
Colorado	2,613	2,734	2,435	2.008	1,661	2,259
Connecticut	16,199	15,023	13,818	15,423	14,502	13,799
Delaware	1,886	1,702	1,456	1,309	972	811
District of Columbia	2,659	3,048	2,820	2,335	1,897	1,672
Florida	10,940	9,635	8,411	7.986	9,300	10,733
Georgia	17,889	15,325	14,643	14,623	13,809	14,672
Idaho	7,320	7.260	5,954	3,315	1,448	664
Illinois	73,811	63,305	55,456	71,310	76,114	81,620
Indiana	25,617	23,797	19,584	19,276	17,608	19,758
Iowa	8,440	8,941	8,100	6,065	4,485	3,815
Kansas	6,271	5,461	5,359	3,954	2,875	2,310
Kentucky	18,813	19,666	20,133	20,790	20,785	21,675
Louisiana	19,491	21,474	20,985	18,640	17,382	15,434
Maine	10,238	9,205	9,772	14,662	12,387	7,391
Maryland	13,496	11,560	9,540	12,669	14,423	12,789
Massachusetts	65,338	60.968	58,233	73,340	73,172	67,490
Michigan	89,296	73,731	61,124	44,628	34,386	30,069
Minnesota	24,027	26,653	26,311	23,749	13,729	8,224
Mississippi	12,021	12,941	12,119	10,366	9,043	7,800
Missouri	28,165	24,301	21,627	19,733	17,299	14,157
Montana	6,068	6,799	5,851	3,392	1,431	876
Nebraska	4,688	5,140	4,330	2,589	1,516	1,067
Nevada	2,092	2,011	1,629	1,189	856	598
New Hampshire	7,613	6,982	7,618	9,602	8.816	7,679
New Jersey	63,118	54,728	50,380	50,981	50,585	41,729
New Mexico	2,481	2,617	2,653	2,152	1,589	1,212
New York	232,615	209,624	198,431	200,627	199,048	185,164
North Carolina	30,171	28,400	29,272	31,848	30,350	27,065
North Dakota	3,122	3,699	3,489	2,033	380	201
Ohio	49,693	47,789	42,775	36,692	35,637	36,042
Oklahoma	10,675	11,218	10,546	9,341	8,052	7,188
Oregon	33,156	27,647	21,409	12,334	7,946	5,406
Pennsylvania	120,123	108,854	106,470	107,876	106,846	128,844
Rhode Island	21,039	18,635	18,582	19,258	19,820	17,962
South Carolina	12,863	12,225	11,224	11,334	10,654	9,628
South Dakota	1,764	1,942	1,832	1,066	360	227
Tennessee	34,973	31,444	31,392	28,577	26,099	22,786
Texas	13,443	15,087	14,950	13,889	13,496	11,291
Utah	5,693	5,821	5,356	3,446	2,067	2,299
Vermont	2,970	2,305	2,257	2,865	2,835	3,893
Virginia	10,553	9,300	8,089	7,102	12,257	15,958
Washington	46.348	38,418	28,340	19,665	15,325	11,586
West Virginia	16,287	15,746	14,406	15,696	16,298	20,175
Wisconsin	20,877	17,537	15,483	12,388	9,297	7,935
Wyoming	1,370	1,535	1,210	770	405	369

[1] Weekly data are adjusted for split weeks in the month on the basis of a 5-day workweek.
[2] Excludes Alaska and Hawaii.

Average weekly insured unemployment [1] *under State programs, by State,* [2] *by month, 1952*—Continued

State	1952					
	July	August	September	October	November	December
Total	1,228,498	997,606	687,069	631,391	685,784	891,506
Alabama	23,965	20 036	14,175	12,849	12,803	15,181
Arizona	1,939	2,173	1,834	1,812	1,968	2,460
Arkansas	6,923	6,392	4,363	4,437	6,836	10,501
California	82,799	67,874	55,483	52,057	65,822	96,789
Colorado	2,099	1,041	617	639	1,008	1,783
Connecticut	18,075	16,439	10,049	7,601	6,868	7,747
Delaware	1,533	1,256	670	649	829	1,292
District of Columbia	1,764	1,790	1,655	1,649	1,906	2,337
Florida	16,072	17,660	17,193	14,938	10,662	9,662
Georgia	16,487	14,327	10,635	10,043	10,100	13,255
Idaho	943	930	722	714	1,862	5,211
Illinois	84,324	78,183	52,270	40,915	38,833	45,665
Indiana	46,945	27,552	12,394	10,824	10,243	16,253
Iowa	4,526	7,272	5,997	3,020	2,791	4,454
Kansas	3,800	3,171	2,015	2,012	2,720	5,030
Kentucky	24,835	19,770	14,790	14,832	14,234	14,919
Louisiana	15,149	13,935	10,180	8,665	9,228	12,175
Maine	5,571	4,972	4,084	4,253	5,786	7,940
Maryland	15,558	12,697	7,172	5,862	6,756	9,677
Massachusetts	63,845	50,581	39,120	32,946	33,291	38,787
Michigan	111,320	107,071	29,602	24,121	24,668	24,951
Minnesota	9,702	7,958	5,094	4,657	6,318	12,667
Mississippi	9,191	8,560	6,145	5,877	6,840	9,178
Missouri	21,329	16,758	10,908	12,449	14,870	17,552
Montana	683	497	415	547	1,169	3,305
Nebraska	1,187	889	664	720	842	2,668
Nevada	536	506	608	597	855	1,188
New Hampshire	7,217	5,953	6,014	5,061	4,674	4,907
New Jersey	51,538	42,833	31,843	32,075	32,390	40,368
New Mexico	1,213	1,044	811	785	901	1,776
New York	190,321	136,438	107,350	108,397	122,622	157,979
North Carolina	26,920	20,172	17,078	15,249	16,652	20,019
North Dakota	232	229	159	198	764	2,219
Ohio	57,400	39,091	23,631	19,929	20,882	25,574
Oklahoma	7,759	7,382	5,717	5,393	6,844	9,228
Oregon	7,216	6,650	6,910	10,048	14,886	24,365
Pennsylvania	142,122	111,082	78,565	71,097	68,392	82,438
Rhode Island	18,875	14,699	11,231	9,355	8,316	10,130
South Carolina	10,821	8,674	6,927	6,404	6,837	8,039
South Dakota	212	235	204	211	382	1,049
Tennessee	25,189	21,041	19,102	16,724	18,133	21,696
Texas	11,588	11,380	9,321	8,457	9,822	12,655
Utah	2,281	1,376	1,139	1,073	1,474	2,944
Vermont	3,063	2,838	2,118	1,512	1,397	1,697
Virginia	14,502	10,212	6,019	4,860	5,275	6,916
Washington	11,907	12,158	12,797	16,112	25,300	38,597
West Virginia	24,763	18,394	11,865	11,416	12,226	13,344
Wisconsin	21,946	15,271	9,303	7,220	7,266	12,258
Wyoming	311	164	115	131	241	654

[1] Weekly data are adjusted for split weeks in the month on the basis of a 5-day workweek.
[2] Excludes Alaska and Hawaii.

Average weekly insured unemployment[1] under State programs, by State,[2] by month, 1952—Continued

State	1953					
	January	February	March	April	May	June
Total	1,155,864	1,083,642	1,014,477	960,590	889,028	832,713
Alabama	17,945	17,080	16,939	16,038	15,356	13,897
Arizona	3,259	3,578	3,570	3,302	3,225	3,185
Arkansas	13,578	14,509	12,916	10,779	8,891	7,213
California	132,227	128,724	124,122	107,763	95,982	85,730
Colorado	2,893	3,358	3,166	2,753	2,003	1,566
Connecticut	10,923	9,285	8,428	8,265	6,847	6,436
Delaware	1,614	1,620	1,335	950	898	893
District of Columbia	3,131	3,628	3,482	3,015	2,611	2,399
Florida	10,986	9,186	8,749	8,392	9,675	11,773
Georgia	16,869	14,760	13,973	13,518	13,625	13,763
Idaho	7,889	8,130	6,128	3,958	2,226	1,469
Illinois	60,230	50,930	45,095	55,847	57,006	54,480
Indiana	19,986	15,230	12,882	11,501	11,799	14,371
Iowa	7,837	8,865	8,010	5,809	4,553	3,995
Kansas	7,145	7,180	6,413	4,967	4,427	5,035
Kentucky	17,845	19,565	19,970	20,169	19,617	17,310
Louisiana	16,320	16,678	15,648	13,180	12,933	11,769
Maine	9,701	8,946	8,053	11,603	9,856	6,341
Maryland	13,124	12,148	10,561	12,497	12,150	10,334
Massachusetts	45,552	42,454	39,319	39,406	37,985	32,718
Michigan	29,467	27,035	24,433	19,929	20,890	22,691
Minnesota	22,220	25,470	25,100	19,753	12,295	8,030
Mississippi	12,684	12,338	11,549	10,092	9,618	7,919
Missouri	22,286	20,244	18,648	17,191	18,231	20,093
Montana	5,913	6,923	6,300	3,875	2,197	1,403
Nebraska	4,970	5,874	4,729	2,569	1,818	1,156
Nevada	1,711	1,745	1,422	1,057	811	826
New Hampshire	5,940	5,372	6,[illegible]05	7,163	7,596	6,199
New Jersey	54,582	45,065	43,696	48,595	45,476	40,174
New Mexico	2,678	2,800	2,730	2,212	1,820	1,664
New York	185,934	165,518	157,835	164,319	163,385	156,560
North Carolina	26,712	27,028	28,327	28,171	27,346	25,804
North Dakota	3,805	4,432	4,226	2,309	903	497
Ohio	32,735	30,634	26,871	24,528	26,589	29,440
Oklahoma	11,561	12,814	11,878	10,207	9,510	9,177
Oregon	33,258	31,175	24,227	16,631	11,638	8,934
Pennsylvania	110,377	100,327	99,863	100,643	80,242	78,206
Rhode Island	14,033	13,351	12,860	11,746	11,170	9,286
South Carolina	11,411	10,558	10,752	10,343	10,571	10,068
South Dakota	1,971	2,168	1,889	860	414	238
Tennessee	27,256	25,966	22,898	22,963	21,575	18,440
Texas	15,701	17,204	17,763	16,755	16,717	16,036
Utah	4,937	5,328	4,416	3,131	2,354	2,259
Vermont	2,138	1,932	1,568	1,403	1,142	1,021
Virginia	10,302	9,382	9,285	7,528	11,282	14,848
Washington	47,681	43,536	34,432	25,984	17,500	12,451
West Virginia	17,748	17,268	17,687	16,636	15,314	15,331
Wisconsin	15,542	14,636	12,962	9,535	8,485	8,963
Wyoming	1,357	1,661	1,419	746	480	323

[1] Weekly data are adjusted for split weeks in the month on the basis of a 5-day workweek.
[2] Excludes Alaska and Hawaii.

Average weekly insured unemployment[1] *under State programs, by State,*[2] *by month, 1952*—Continued

State	1953					
	July	August	September	October	November	December
Total	861,057	816,107	779,360	839,984	1,115,139	1,508,926
Alabama	14,055	14,169	12,231	12,404	16,532	21,303
Arizona	3,461	3,812	3,269	3,431	3,754	4,571
Arkansas	7,600	7,453	5,697	7,273	9,237	13,088
California	76,439	64,303	58,468	61,379	86,242	124,280
Colorado	1,778	1,844	1,518	1,813	3,112	5,029
Connecticut	9,509	11,144	8,554	8,831	11,675	15,650
Delaware	876	838	1,222	1,567	2,355	2,970
District of Columbia	2,510	2,356	2,629	2,742	3,424	4,372
Florida	17,042	19,293	16,398	15,205	11,263	11,765
Georgia	14,316	12,769	11,925	12,735	16,963	25,247
Idaho	1,430	1,297	1,161	1,530	3,754	7,948
Illinois	53,699	49,667	43,341	52,000	60,438	86,176
Indiana	14,815	14,595	14,674	20,908	28,370	40,690
Iowa	4,277	3,994	3,690	4,273	6,163	10,054
Kansas	5,562	4,936	4,984	6,227	8,085	11,010
Kentucky	17,310	17,049	14,884	19,336	23,020	30,901
Louisiana	12,243	11,207	8,790	7,796	9,438	13,882
Maine	5,750	4,887	5,312	7,378	10,143	13,512
Maryland	10,656	9,653	8,248	8,610	12,601	16,536
Massachusetts	34,666	31,399	34,452	36,810	45,944	60,306
Michigan	30,599	53,105	52,369	56,050	69,445	83,348
Minnesota	7,550	6,695	5,755	6,240	9,842	19,805
Mississippi	8,610	8,178	6,146	6,750	9,077	14,144
Missouri	18,952	14,195	16,382	21,631	28,845	32,929
Montana	984	739	593	686	1,269	3,242
Nebraska	1,129	912	999	1,051	1,860	4,310
Nevada	817	837	697	1,113	1,612	2,460
New Hampshire	5,831	5,451	7,156	8,392	8,838	9,302
New Jersey	45,915	39,062	38,317	37,228	50,020	65,839
New Mexico	1,898	2,285	1,993	2,438	2,834	4,377
New York	153,599	132,233	127,180	120,103	168,930	209,918
North Carolina	24,544	20,865	21,275	22,360	28,867	36,622
North Dakota	317	227	163	184	813	2,393
Ohio	23,551	23,004	25,160	33,711	50,160	72,202
Oklahoma	9,104	8,150	6,042	6,983	9,316	12,385
Oregon	9,624	10,051	9,637	12,987	23,787	36,153
Pennsylvania	84,306	85,701	85,713	88,917	112,426	154,391
Rhode Island	9,731	10,012	9,291	10,688	13,569	17,290
South Carolina	12,253	11,030	9,329	10,326	12,568	15,949
South Dakota	223	235	196	204	427	1,354
Tennessee	21,187	19,320	19,284	21,176	28,785	36,880
Texas	17,345	18,225	16,844	16,435	19,297	25,363
Utah	2,106	1,850	1,511	1,653	2,717	5,158
Vermont	1,060	1,096	1,231	1,050	1,507	2,736
Virginia	13,692	10,670	8,413	8,049	10,333	14,290
Washington	14,047	15,640	16,905	22,207	34,915	49,403
West Virginia	16,649	14,197	12,404	12,278	15,432	20,542
Wisconsin	17,460	15,371	16,773	16,690	24,763	35,707
Wyoming	241	198	155	171	372	1,147

[1] Weekly data are adjusted for split weeks in the month on the basis of a 5-day workweek.
[2] Excludes Alaska and Hawaii.

EXHIBIT 2

State insured unemployment in selected weeks, 1952, as percent of average monthly covered employment[1]

State	Jan. 12	Feb. 9	Mar. 8	Apr. 12	May 10	June 14
Total	4.2	3.8	3.6	3.4	3.2	3.0
Alabama	3.8	3.6	3.6	3.4	3.9	4.9
Arizona	2.5	2.8	2.7	2.3	1.7	1.3
Arkansas	6.7	6.9	6.8	5.3	3.3	2.5
California	5.2	5.5	5.5	4.7	4.2	3.6
Colorado	1.2	1.2	1.3	.9	.9	1.0
Connecticut	2.5	2.3	2.1	2.2	2.2	2.1
Delaware	1.9	1.7	1.5	1.3	1.1	.8
District of Columbia	1.1	1.4	1.3	1.1	.9	.7
Flordia	2.7	2.3	2.1	1.8	2.1	2.3
Georgia	3.4	2.8	2.7	2.7	2.4	2.8
Idaho	8.2	8.6	7.7	3.2	1.7	.7
Illinois	3.3	2.8	2.4	2.8	3.2	3.5
Indiana	2.7	2.5	2.2	2.0	1.8	1.8
Iowa	2.3	2.5	2.4	1.7	1.5	1.1
Kansas	2.3	2.0	2.1	1.6	1.1	.9
Kentucky	4.9	4.7	5.0	5.0	5.0	5.5
Louisiana	4.0	4.5	5.1	4.0	3.8	3.2
Maine	6.0	5.2	5.8	9.2	8.6	4.9
Maryland	2.4	2.1	1.8	2.1	2.5	2.1
Massachusetts	4.5	4.2	4.0	5.0	5.1	4.6
Michigan	5.3	4.6	3.9	2.8	2.0	1.6
Minnesota	4.0	4.6	4.7	4.4	2.9	1.6
Mississippi	6.0	6.6	6.9	5.6	4.8	4.1
Missouri	3.5	2.9	2.7	2.5	2.2	1.7
Montana	5.5	6.6	6.1	3.8	1.6	.9
Nebraska	2.6	3.4	2.7	1.7	1.0	.6
Nevada	4.8	5.3	4.4	3.2	2.5	1.6
New Hampshire	6.1	5.4	5.3	7.5	7.1	5.9
New Jersey	5.1	3.7	3.9	3.6	3.8	3.3
New Mexico	2.3	2.5	2.6	2.1	1.7	1.2
New York	5.5	4.8	4.6	4.6	4.5	4.2
North Carolina	4.5	4.0	4.3	4.2	4.5	4.0
North Dakota	5.8	7.9	7.7	5.4	1.0	.4
Ohio	2.2	2.1	2.0	1.7	1.6	1.5
Oklahoma	3.6	3.9	3.8	3.3	2.9	2.4
Oregon	9.9	8.7	7.3	4.2	3.0	1.5
Pennsylvania	4.2	3.5	3.4	3.5	3.5	4.0
Rhode Island	9.0	7.9	7.5	7.6	8.1	7.7
South Carolina	4.2	3.7	3.5	3.2	3.3	2.9
South Dakota	3.1	3.5	3.6	2.5	.8	.4
Tennessee	6.8	7.2	7.4	5.0	4.2	5.2
Texas	1.0	1.2	1.2	1.1	1.0	.9
Utah	3.8	4.2	4.2	2.8	1.5	2.2
Vermont	4.7	3.8	3.7	3.5	4.0	5.9
Virginia	2.1	1.8	1.7	1.3	1.6	3.2
Washington	9.0	7.7	6.1	4.0	3.0	2.3
West Virginia	4.4	4.1	3.9	3.9	4.4	4.8
Wisconsin	2.8	2.4	2.1	1.7	1.3	1.0
Wyoming	2.2	2.8	2.6	1.6	.9	.7

[1] Average monthly covered employment for the most recent preceding 12-month period for which data are available.

State insured unemployment in selected weeks, 1952, as percent of average monthly covered employment[1]—Continued

State	July 12	Aug. 9	Sept. 13	Oct. 11	Nov. 8	Dec. 13
Total	3.4	3.4	2.0	1.8	1.9	2.4
Alabama	5.6	5.4	3.4	2.9	2.9	3.4
Arizona	1.6	1.8	1.6	1.5	1.5	1.9
Arkansas	2.8	2.9	1.8	1.7	2.2	4.4
California	3.1	2.6	2.1	1.8	2.1	3.4
Colorado	1.0	.5	.3	.3	.3	.8
Connecticut	2.8	2.5	1.5	1.2	1.0	1.0
Delaware	1.2	1.6	.6	.6	.6	1.3
District of Columbia	.8	.8	.7	.7	.8	1.0
Florida	3.4	4.0	4.1	3.4	2.7	2.1
Georgia	2.8	2.9	1.9	1.7	1.7	2.3
Idaho	1.0	1.1	.7	.6	1.2	4.7
Illinois	3.3	3.6	2.3	1.7	1.6	1.9
Indiana	4.6	3.8	1.3	1.1	1.0	1.3
Iowa	1.1	2.0	1.8	.9	.6	1.1
Kansas	1.3	1.4	.7	.7	.7	1.4
Kentucky	5.6	5.3	3.6	3.4	3.6	3.4
Louisiana	3.2	3.2	2.2	1.7	1.8	2.6
Maine	3.5	3.0	2.5	2.2	3.3	3.9
Maryland	2.5	2.5	1.2	1.0	1.0	1.5
Massachusetts	4.6	3.8	2.7	2.2	2.2	2.4
Michigan	4.3	10.2	1.8	1.4	1.4	1.3
Minnesota	1.7	1.6	1.0	.8	1.0	2.0
Mississippi	4.7	4.9	3.2	2.9	3.2	4.7
Missouri	2.3	2.6	1.3	1.4	1.7	1.9
Montana	.7	.5	.4	.4	.8	2.9
Nebraska	.8	.6	.3	.5	4	1.4
Nevada	1.2	1.4	1.5	1.4	1.7	2.8
New Hampshire	6.0	4.6	4.6	3.9	3.5	3.5
New Jersey	4.4	3.6	2.4	2.1	2.2	2.7
New Mexico	1.0	1.1	.8	.7	.8	1.5
New York	4.4	3.5	2.5	2.3	2.6	3.2
North Carolina	4.6	3.0	2.5	2.2	2.3	2.8
North Dakota	.4	.5	.4	.3	.8	4.2
Ohio	2.2	2.2	1.1	.8	.9	1.0
Oklahoma	2.5	2.6	2.1	1.8	2.1	3.0
Oregon	2.2	2.1	2.0	2.9	3.6	6.8
Pennsylvania	4.0	4.1	2.6	2.3	2.1	2.5
Rhode Island	8.3	6.2	4.8	4.1	3.4	3.8
South Carolina	3.3	2.7	2.0	1.8	1.9	2.2
South Dakota	.4	.4	.4	.4	.5	1.6
Tennessee	5.4	4.7	3.0	3.2	3.3	4.0
Texas	.9	.9	.7	.6	.7	.9
Utah	1.7	1.1	.8	.7	.9	2.0
Vermont	4.3	4.7	3.5	2.3	2.1	2.6
Virginia	2.9	2.2	1.2	.9	.9	1.2
Washington	2.3	2.3	2.3	2.6	3.8	6.8
West Virginia	6.4	5.9	3.2	2.9	3.1	3.5
Wisconsin	2.3	2.4	1.3	1.0	.8	1.4
Wyoming	.5	.4	.2	.2	.3	1.0

[1] Average monthly covered employment for the most recent preceding 12-month period for which data are available.

State insured unemployment in selected weeks, 1953, as percent of average monthly employment

State	Jan. 10 [1]	Feb. 14 [1]	Mar. 14 [1]	Apr. 11 [2]	May 9 [2]	June 13 [2]
Total	3.4	3.1	2.9	2.8	2.6	2.4
Alabama	4.1	3.8	3.9	3.7	3.6	3.3
Arizona	2.2	2.7	2.8	2.4	2.4	2.4
Arkansas	5.5	5.9	5.4	4.4	3.8	3.1
California	4.8	4.6	4.5	3.9	3.4	3.0
Colorado	1.2	1.5	1.4	1.2	1.0	.7
Connecticut	1.9	1.4	1.3	1.3	.8	.9
Delaware	1.4	1.7	1.3	.9	.8	.8
District of Columbia	1.3	1.6	1.6	1.4	1.2	1.0
Florida	3.0	2.0	2.0	1.7	2.0	2.4
Georgia	3.2	2.5	2.5	2.3	2.4	2.4
Idaho	7.6	8.5	6.5	4.5	2.5	1.8
Illinois	2.6	2.1	1.9	2.1	2.4	2.3
Indiana	2.4	1.7	1.4	1.2	1.2	1.5
Iowa	2.0	2.4	2.3	1.7	1.4	1.1
Kansas	2.1	2.4	2.4	1.7	1.4	1.5
Kentucky	4.0	4.6	4.8	4.7	4.7	4.2
Louisiana	3.5	3.3	3.4	2.9	2.5	2.5
Maine	5.7	5.2	4.7	6.9	6.7	3.3
Maryland	2.2	2.0	1.8	1.9	2.1	1.7
Massachusetts	3.3	2.9	2.8	2.7	2.7	2.1
Michigan	1.9	1.7	1.5	1.3	1.0	1.3
Minnesota	3.5	4.4	4.5	3.6	2.5	1.4
Mississippi	6.7	6.2	6.1	5.3	5.1	4.1
Missouri	2.7	2.5	2.4	2.0	2.1	2.3
Montana	5.0	6.6	6.5	3.9	2.5	1.4
Nebraska	2.4	3.2	3.0	1.5	1.2	.7
Nevada	3.7	3.9	3.4	2.7	1.8	1.8
New Hampshire	5.1	4.1	4.4	5.7	5.9	4.8
New Jersey	4.2	3.3	3.1	3.5	3.3	3.0
New Mexico	2.5	2.5	2.5	2.0	1.7	1.4
New York	4.5	3.8	3.5	3.8	3.6	3.5
North Carolina	4.0	3.8	4.1	4.0	4.0	3.8
North Dakota	6.8	9.8	9.6	5.9	2.5	1.2
Ohio	1.4	1.3	1.2	1.1	1.0	1.3
Oklahoma	3.7	4.3	4.1	3.5	3.4	3.0
Oregon	9.9	10.4	7.4	5.5	3.8	2.7
Pennsylvania	3.8	3.2	3.1	3.3	2.6	2.5
Rhode Island	6.4	5.9	5.7	4.7	5.0	4.0
South Carolina	3.2	2.9	3.0	2.8	2.9	2.7
South Dakota	3.3	3.9	4.0	1.9	1.0	.5
Tennessee	5.3	5.1	4.3	4.5	4.0	3.6
Texas	1.1	1.2	1.3	1.2	1.2	1.1
Utah	3.2	3.8	3.3	2.4	1.8	1.7
Vermont	3.4	3.2	2.7	2.0	2.0	1.6
Virginia	2.2	1.8	1.8	1.3	1.3	2.8
Washington	8.9	8.4	6.3	5.2	3.6	2.4
West Virginia	4.8	4.6	4.8	4.6	4.2	4.1
Wisconsin	2.0	1.9	1.7	1.3	1.1	1.1
Wyoming	2.1	2.9	2.9	1.5	.9	.6

[1] Based on average monthly covered employment for 12 months ending June 30, 1952.
[2] Based on average monthly covered employment for 12 months ending Sept. 30, 1952.

State insured unemployment in selected weeks, 1953–54, as percent of average monthly employment

State	July [3] 11	Aug. [3] 8	Sept. [3] 12	Oct. [4] 10	Nov. [4] 14	Dec. [4] 12	Jan. 9, [4] 1954
Total	2.5	2.4	2.3	2.2	3.1	3.9	5.5
Alabama	3.1	3.3	3.0	2.4	3.7	5.2	6.5
Arizona	2.4	2.8	2.5	2.4	2.6	3.1	4.1
Arkansas	3.1	3.0	1.9	2.6	3.7	5.5	7.2
California	2.8	2.3	2.0	2.0	2.7	4.0	4.8
Colorado	.7	.8	.7	.6	1.3	2.0	3.0
Connecticut	1.5	1.6	1.3	1.1	1.6	1.8	3.3
Delaware	.8	.7	.8	1.3	1.8	2.5	3.3
District of Columbia	1.1	1.2	1.1	1.1	1.5	2.0	2.2
Florida	3.3	4.0	3.8	3.3	2.3	2.3	2.8
Georgia	2.5	2.2	2.0	2.0	2.8	4.2	5.7
Idaho	1.5	1.5	1.6	1.4	3.1	7.7	10.4
Illinois	2.2	2.2	1.7	2.1	2.4	3.3	4.4
Indiana	1.6	1.4	1.3	1.9	2.7	3.5	6.2
Iowa	1.1	1.0	1.1	1.0	1.6	2.4	4.3
Kansas	1.8	1.5	2.0	1.6	2.6	2.7	3.6
Kentucky	3.9	4.1	3.4	4.1	5.2	6.8	8.9
Louisiana	2.3	2.6	1.9	1.5	1.8	2.5	3.9
Maine	2.9	2.8	2.7	3.8	5.7	7.8	8.8
Maryland	1.9	1.5	1.4	1.3	1.9	2.3	3.7
Massachusetts	2.6	2.1	2.4	2.4	3.2	3.7	4.9
Michigan	1.7	3.8	3.2	2.9	4.3	4.5	5.9
Minnesota	1.3	1.2	1.0	.9	1.5	2.9	4.9
Mississippi	4.3	4.4	3.5	3.0	4.4	6.2	9.4
Missouri	2.7	1.7	1.7	2.1	2.9	3.6	4.8
Montana	1.0	.8	.5	.6	1.0	2.5	5.7
Nebraska	.7	.5	.6	.6	.7	1.7	2.8
Nevada	1.8	1.8	1.1	1.9	3.3	5.0	5.3
New Hampshire	4.8	3.9	4.9	6.2	6.7	6.7	8.7
New Jersey	3.1	3.0	2.7	2.2	3.5	4.5	6.3
New Mexico	1.6	2.0	1.8	1.8	2.4	3.4	4.2
New York	3.6	3.1	3.3	2.6	4.0	4.2	5.8
North Carolina	3.9	3.0	3.1	2.8	3.9	5.0	8.3
North Dakota	.7	.5	.4	.2	1.3	3.7	7.2
Ohio	1.0	1.0	1.0	1.3	2.0	2.6	3.9
Oklahoma	3.2	2.9	2.2	2.2	2.9	4.1	5.3
Oregon	2.9	3.1	2.9	3.4	6.7	10.3	12.7
Pennsylvania	2.6	2.8	2.8	2.6	3.5	4.5	6.4
Rhode Island	3.9	4.2	3.8	4.2	5.6	6.7	9.7
South Carolina	3.2	3.0	2.8	2.6	3.2	4.1	5.7
South Dakota	.4	.4	.4	.4	.7	2.0	4.3
Tennessee	4.1	3.9	3.6	3.5	5.1	6.5	9.5
Texas	1.2	1.3	1.2	1.1	1.3	1.7	2.1
Utah	1.5	1.4	1.0	1.0	1.6	3.2	4.9
Vermont	1.5	1.6	2.3	1.6	2.2	4.1	6.3
Virginia	2.6	2.0	1.4	1.3	1.8	2.3	4.3
Washington	2.6	2.8	3.1	3.4	6.2	8.7	11.3
West Virginia	4.6	4.2	3.3	3.2	4.0	5.4	7.8
Wisconsin	2.3	2.2	2.5	1.9	3.0	3.8	5.1
Wyoming	.4	.4	.3	.2	.5	1.5	2.9

[3] Based on average monthly covered employment for 12 months ended Dec. 31, 1952.
[4] Based on average monthly covered employment for 12 months ended Mar. 31, 1953.

Exhibit 3

Unemployment insurance benefits paid, by State, during 1949, 1952, and 1953

[In thousands]

State	1949	1952	1953
Total	$1,735,992	$998,237	$962,221
Alabama	19,323	11,167	10,520
Alaska	2,578	4,171	5,641
Arizona	3,801	1,390	2,568
Arkansas	6,653	5,707	6,014
California	253,084	101,678	97,363
Colorado	3,575	1,311	2,117
Connecticut	46,639	11,044	7,966
Deleware	2,346	1,023	1,167
District of Columbia	3,922	1,700	2,365
Florida	11,121	7,483	7,780
Georgia	13,465	9,491	10,226
Hawaii	4,342	2,336	2,858
Idaho	2,797	2,862	3,684
Illinois	105,384	57,245	51,085
Indiana	27,026	20,842	16,748
Iowa	5,312	4,937	5,088
Kansas	5,450	3,912	7,041
Kentucky	15,415	15,193	17,665
Louisiana	18,117	13,181	10,356
Maine	11,402	5,326	5,788
Maryland	29,838	10,930	11,911
Massachusetts	115,249	59,133	41,081
Michigan	80,783	61,987	39,485
Minnesota	13,342	11,612	11,021
Mississippi	6,380	6,066	6,641
Missouri	22,479	13,624	15,534
Montana	2,668	2,155	2,347
Nebraska	2,016	2,172	2,577
Nevada	2,163	1,243	1,567
New Hampshire	10,659	5,790	5,877
New Jersey	87,390	51,163	59,757
New Mexico	1,786	1,541	2,455
New York	356,432	185,211	178,597
North Carolina	19,470	20,162	20,973
North Dakota	848	1,616	1,987
Ohio	79,542	35,876	32,542
Oklahoma	7,987	6,175	7,251
Oregon	19,277	15,000	19,208
Pennsylvania	140,505	109,952	102,359
Rhode Island	31,396	16,404	12,565
South Carolina	12,052	7,292	9,055
South Dakota	649	673	730
Tennessee	23,459	17,900	16,369
Texas	11,918	7,943	11,891
Utah	5,194	3,054	3,168
Vermont	3,908	2,365	1,299
Virginia	14,025	7,041	8,203
Washington	35,031	23,270	29,027
West Virginia	17,325	13,936	13,954
Wisconsin	19,562	14,128	17,934
Wyoming	906	725	815

EXHIBIT 4

Labor market indicators

State and area	Classification according to relative adequacy of local labor supply [1]			Nonagricultural wage and salary employment (in thousands)							Women as a percent of nonagricultural wage and salary employment	Turnover
				Total			Manufacturing					Manufacturing quits per 100 workers
				November 1953	Percentage change from—		November 1953	Percentage change from—		Employer forecasts of labor requirements [2]		
	January 1954	November 1953	January 1953		September 1953	November 1952		September 1953	November 1952	November 1953–March 1954	November 1953	October 1953
Alabama:												
Birmingham [3]	III	III	III	192.6	−0.3	+0.2	63.8	−0.2	+0.6	Moderate increase	23.8	0.7
Mobile	III	III	III	74.6	−1.7	+5.6	15.4	−5.6	−9.4	Slight increase	28.3	2.9
Arizona: Phoenix [3]	III	III	III	96.9	+3.2	+3.3	15.0	+.7	+.7	Moderate increase	30.0	3.4
Arkansas: Little Rock-North Little Rock [3]	III	III	II	70.4	+.2	+.4	13.6	+2.2	+5.0	do	36.6	4.0
California:												
Fresno	III	III	III	70.9	−.3	−2.4	12.9	−2.3	−10.1	Substantial decrease	31.5	(9)
Los Angeles	III	III	III	842.8	−.6	+2.3	636.5	−2.6	−.4	No change	32.6	(9)
Sacramento	III	II	III	117.2	−2.2	+.9	12.7	−10.7	+25.5	Slight decrease	31.5	(9)
San Bernardino-Riverside	III	III	III	131.7	+.4	+7.8	27.8	−1.1	+17.8	Moderate increase	29.8	(9)
San Diego	II	II	II	185.2	−1.3	+.8	52.2	−1.8	−.9	Slight increase	34.5	(9)
San Francisco-Oakland	III	III	III	878.2	−2.4	−1.6	206.9	−8.2	−.4	do	33.7	(9)
San Jose	III	III	III	91.7	−14.1	+5.8	26.2	−37.2	+8.7	Substantial decrease	32.7	(9)
Stockton	III	III	III	56.2	−8.0	−.3	12.0	−28.4	−3.6	do	27.7	(9)
Colorado: Denver	II	II	II	232.0	−1.9	+.5	45.4	+1.6	−.6	Moderate decrease	37.4	(9)
Connecticut:												
Bridgeport [3]	II	II	II	123.3	0	−.5	73.2	−.4	−1.2	No change	32.7	2.1
Hartford	I	I	I	201.9	+1.0	+3.9	80.1	+1.1	+6.9	Slight increase	35.9	2.8
New Britain	II	II	II	43.6	+2.1	+3.1	30.0	+1.7	+6.0	No change	32.3	2.5
New Haven	II	II	II	120.6	−.4	+.3	49.1	−.6	0	Slight increase	36.2	2.8
Stamford-Norwalk	II	II	II	76.0	−2.3	−1.2	35.4	−2.2	−5.9	No change	35.0	2.1
Waterbury	II	II	II	71.8	−.8	+.8	47.3	−1.9	+.9	do	35.1	2.4
Delaware: Wilmington	III	II	II	102.8	−1.4	+.9	46.0	−4.1	−1.1	do	27.9	1.4
District of Columbia: Washington [3]	III	III	II	603.4	−1.6	−5.6	26.9	−.7	−2.2	Slight increase	38.1	3.5
Florida:												
Jacksonville	II	II	II	114.3	+1.8	+3.2	18.4	0	+3.1	Slight decrease	31.5	3.2
Miami	II	II	II	203.6	+7.5	+9.6	23.8	+12.5	+13.3	Moderate increase	31.5	4.6
Tampa-St. Petersburg	III	III	III	125.7	+7.2	+5.0	25.2	+12.5	+7.7	do	36.3	1.1
Georgia:												
Atlanta [3]	II	II	II	301.2	−.4	+2.7	80.0	−1.3	+5.4	No change	34.0	1.9
Augusta [4]												
Columbus	III	III	III	44.1	−2.3	−4.5	18.6	−1.5	−4.8	Slight increase	37.7	2.7
Macon	II	II	II	55.7	−.3	+.4	12.8	−1.9	−3.0	No change	32.5	2.6
Savannah [3]	III	III	III	48.3	−1.0	+1.2	13.5	−4.3	−.8	Moderate increase	26.5	2.4

Footnotes at end of table, p. 333.

Labor market indicators—Continued

State and area	Classification according to relative adequacy of local labor supply [1]			Nonagricultural wage and salary employment (in thousands)							Women as a percent of nonagricultural wage and salary employment	Turnover
				Total			Manufacturing					Manufacturing quits per 100 workers
				November 1953	Percentage change from—		November 1953	Percentage change from—		Employer forecasts of labor requirements [2]		
	January 1954	November 1953	January 1953		September 1953	November 1952		September 1953	November 1952	November 1953–March 1954	November 1953	October 1953
Hawaii: Honolulu	III	III	III	105.9	−2.6	−2.8	12.1	−14.1	−3.9	Slight increase	30.0	2.6
Illinois:												
Aurora	II	II	II	33.2	−1.6	+1.7	17.6	−1.3	+.3	Moderate increase	30.2	4.1
Chicago	II	II	II	2,445.8	−.1	+.7	959.6	−1.4	−.1	No change	35.8	[5] 2.2
Davenport-Rock Island-Moline	III	III	II	90.1	−2.8	−3.6	43.4	−5.4	−6.2	Slight increase	30.5	1.2
Joliet	III	II	II	47.8	−4.4	−.8	25.2	−6.8	−4.4	No change	27.0	3.2
Peoria	III	III	II	91.0	−4.4	−6.3	42.3	−9.1	−11.5	Slight decrease	23.6	1.5
Rockford	II	II	II	64.0	−.4	+0.9	39.2	−.8	+1.7	No change	29.2	(9)
Indiana:												
Evansville [3]	III	III	II	68.9	−1.3	−5.9	37.6	−3.5	−9.3	do	27.9	1.6
Fort Wayne [3]	III	II	II	79.3	−2.2	−1.4	38.9	−4.6	−1.1	do	33.4	1.6
Indianapolis [3]	II	II	II	285.6	+1.4	+0.8	112.4	+.3	+.3	do	33.1	2.4
South Bend [3]	III	III	II	90.7	−5.1	−4.8	51.3	−10.0	−7.5	Moderate decrease	29.1	1.2
Terre Haute	IV	IV	IV	35.6	−3.3	−3.5	11.2	−10.8	−2.4	Slight decrease	27.8	(9)
Iowa:												
Cedar Rapids	II	II	II	42.1	+1.8	−0.9	19.1	+3.1	−3.2	Slight increase	33.0	1.7
Des Moines [3]	II	II	II	88.9	−1.7	−0.4	21.8	−5.6	−2.7	do	34.5	1.7
Kansas: Wichita [3]	II	II	I	112.8	−1.9	−6.7	49.6	−1.9	−15.4	do	33.4	2.7
Kentucky: Louisville	III	II	III	231.0	−1.4	+1.1	101.7	−3.2	+9.2	Slight decrease	35.9	(9)
Louisiana:												
Baton Rouge [3]	III	III	III	57.0	+.2	+2.2	19.8	+1.2	+5.3	Slight increase	24.2	.8
New Orleans [3]	III	III	III	265.8	+.2	+0.4	55.9	−1.7	+5.1	Slight decrease	27.4	3.7
Shreveport	III	III	III	53.5	−.2	+3.3	8.4	−1.5	+8.7	Moderate decrease	28.2	3.0
Maine: Portland [3]	III	III	III	51.3	−1.0	+3.2	13.2	−2.8	+6.2	Slight decrease	30.2	(9)
Maryland: Baltimore [3]	II	II	II	549.5	+.2	+1.5	200.5	−3.1	+.1	Slight increase	32.5	2.4
Massachusetts:												
Boston	III	III	III	948.6	−0.5	−1.0	321.1	−2.0	−2.0	Slight degrease	35.6	(9)
Brockton	III	III	III	42.9	−1.6	−1.4	21.2	−2.3	−2.7	Slight increase	42.7	(9)
Fall River	III	III	IV	49.3	−.9	−1.2	29.2	−1.5	−1.4	Moderate increase	30.2	(9)
Lawrence	IV	IV	IV	36.4	−4.0	−6.5	19.2	−8.9	−11.4	Slight increase	39.9	(9)
Lowell	IV	IV	IV	41.8	−2.9	−3.0	22.3	−5.7	−5.9	No change	40.8	(9)
New Bedford	IV	III	IV	56.5	−1.7	−2.9	32.2	−2.1	−3.9	Slight increase	47.8	(9)
Springfield-Holyoke	III	III	III	162.8	+1.5	−1.4	83.9	+2.3	−3.1	No change	32.5	(9)
Worcester	III	III	III	107.6	−1.1	−0.1	53.6	−2.9	−1.5	do	34.9	(9)

Michigan:												
Battle Creek	III	II	I	44.8	-5.7	-5.5	24.3	-8.6	-4.7	do	29.0	1.8
Detroit	III	II	II	1,326.0	-.7	-0.4	706.0	-2.9	-1.7	do	27.6	2.0
Flint	II	II	II	109.4	-5.7	+5.0	67.4	-9.7	+5.6	Substantial increase	23.1	2.4
Grand Rapids	II	II	III	109.0	+1.6	+2.9	55.0	+2.6	+5.6	Slight increase	32.7	2 7
Kalamazoo	II	II	II	47.4	-.2	+2.2	25.1	-1.2	+4.1	do	29.3	2.3
Lansing	II	II	II	74.2	+.5	+3.9	32.8	+1.5	+5.5	Moderate increase	26.1	2.0
Muskegon	IV	III	II	43.1	-5.3	-7.9	27.5	-7.7	-11.9	Slight increase	22.0	1.2
Saginaw	II	I	II	51.6	-2.3	+3.6	27.0	-3.9	+3.4	do	21.5	1.9
Minnesota:												
Duluth-Superior [3]	III	III	III	52.2	-4.6	-5.9	12.0	-2 5	-6.8	Moderate increase	32.0	.3
Minneapolis-St. Paul [3]	III	II	II	480.4	+.7	+1.8	153.5	-.5	+3.2	No change	37.1	2.5
Mississippi: Jackson [6]	III	III	III	43.0	-2.0	-3.5	8 8	-3.8	-11.0	Slight decrease	35.4	.8
Missouri:												
Kansas City [3]	III	II	II	376.2	+.1	-1.0	117.5	-1.7	-1.0	No change	29.9	3.0
St. Louis [3]	III	II	II	728.4	-1.7	-.4	288.3	-4.7	-1.9	Slight increase	31.3	2.3
Nebraska: Omaha	II	II	II	144.2	+ 7	+.5	32.7	+4.0	+.9	Slight decrease	33.6	3.3
New Hampshire: Manchester [3]	III	III	III	39.5	-3.5	-3.6	19.4	-6.6	-7.7	Moderate decrease	39.6	2.3
New Jersey:												
Atlantic City	IV	IV	IV	40.2	-11.0	+.9	6.8	+.4	+.7	Substantial increase	38.3	2.0
Newark	III	III	III	756.8	-.6	-.8	355.2	-2.3	-1.5	No change	31.0	1.9
Paterson	III	III	III	359.8	-1.4	-1.0	196.3	-2.8	-2 6	do	31.0	2 1
Perth Amboy	III	II	II	109.5	-1.6	+3.4	66.9	-2 5	+2.8	do	28.6	1.5
Trenton	III	II	II	124.7	-1.8	-1 3	55.9	-4.0	-2 4	Slight increase	36.5	2.0
New Mexico: Albuquerque [3]	IV	IV	III	52.4	0	+1.4	8.6	-1.2	+ 6	No change	26.9	(9)
New York:												
Albany-Schenectady-Troy [3]	III	III	III	222.5	-1.1	+1.0	92.9	-3.2	+4 3	Slight decrease	29.7	1.0
Binghamton [3]	III	II	III	77.3	-.1	+3 5	42.3	-.2	+4.1	No change	34 5	1.5
Buffalo [3]	II	II	II	453.7	(7)	+1.6	215.8	-1.0	+2 4	do	26.1	2.5
New York [3]	III	III	III	4,117.8	+1.2	+.2	1,179.6	+.3	-3 0	INA	(9)	(9)
Rochester [3]	II	II	II	218.6	+.2	+3.6	118.6	-.8	+5.4	No change	35.1	(9)
Syracuse [3]	II	II	II	148.5	+.8	+1.9	64.8	-.8	+1 6	Slight increase	31.1	2.4
Utica-Rome [3]	III	III	IV	99.0	-1.1	+3.5	48.0	-2.2	+9.1	No change	35.0	1.6
North Carolina:												
Asheville	IV	IV	IV	36.3	-.5	+2.8	11.6	+.9	+4 5	do	32.9	1.3
Charlotte	II	II	III	82.7	+.4	+.9	21.5	+.7	-3.1	do	39 7	3.2
Durham	IV	IV	IV	37.6	-1.9	-.9	14.0	-6 5	-5.1	Substantial decrease	41 3	1.4
Greensboro-High Point	III	III	II	80.8	-.1	-.6	39.4	-3.0	-1.3	Slight increase	36.1	2.6
Winston-Salem	IV	IV	IV	61.7	-.2	+1.0	32 8	-1.8	-1 4	Moderate decrease	40.3	1.8
Ohio:												
Akron	II	II	II	178.1	-1.2	+2 5	101.4	-2.0	+3.3	Slight decrease	28.3	1.5
Canton	III	II	II	120.0	-4.0	-3.2	64.2	-7.5	-4.6	Slight increase	29.3	1.6
Cincinnati	II	II	II	387 3	-1.5	+.6	169.7	-3.4	+.9	do	30.0	2.3
Cleveland	II	II	II	669.1	-.7	-.6	327.5	-3.4	-1.5	No change	30.8	2.8
Columbus	II	II	II	223 9	-4.5	-2 4	65.7	-15.2	-12.3	Slight increase	36.5	3.4
Dayton	II	II	II	207.0	+.3	+3.4	98.9	+.6	+8.7	No change	29.0	1.5
Hamilton-Middletown	II	II	III	57.3	-1.2	+2.0	33.2	-2.6	+4 1	do	(9)	(9)
Lorain-Elyria	II	II	II	53.8	-1.8	0	33 3	-3.5	-2 3	Slight increase	(9)	(9)
Toledo	III	III	II	162.3	-1.6	-4.4	76 0	-5.0	-9 5	do	28.6	1.1
Youngstown	II	II	II	193.9	-1.7	-1.8	112.7	-2.5	-1.7	No change	28.7	1.4
Oklahoma:												
Oklahoma City [3]	III	II	II	136.2	-.6	-3.1	16.2	+.9	+.6	Moderate decrease	29.4	3.6
Tulsa [3]	II	II	II	117.9	-.3	+4 7	31.6	-2.6	+8.7	No change	28 1	2.4

Footnotes at end of table, p. 333.

Labor market indicators—Continued

State and area	Classification according to relative adequacy of local labor supply [1]: January 1954	November 1953	January 1953	Nonagricultural wage and salary employment (in thousands): Total: November 1953	Total: Percentage change from— September 1953	Total: Percentage change from— November 1952	Manufacturing: November 1953	Manufacturing: Percentage change from— September 1953	Manufacturing: Percentage change from— November 1952	Manufacturing: Employer forecasts of labor requirements [2]: November 1953–March 1954	Women as a percent of nonagricultural wage and salary employment: November 1953	Turnover: Manufacturing quits per 100 workers: October 1953
Oregon: Portland [3]	III	III	III	240.1	−3.7	−.2	60.7	−7.2	+1.0	Slight decrease	29.4	2.8
Pennsylvania:												
Allentown-Bethlehem [3]	II	II	II	172.6	−1.0	−1.3	99.2	−2.6	−3.8	No change	29.1	1.8
Altoona	IV	IV	IV	45.1	−1.8	+.6	19.2	−6.6	−2.8	do	24.3	1.0
Erie [3]	III	III	III	81.2	−.6	+.7	44.2	−1.3	−1.7	Slight decrease	29.9	1.6
Harrisburg [3]	II	II	II	126.6	−1.8	−2.5	35.4	−5.5	−3.5	No change	34.4	1.5
Johnstown	IV	IV	III	79.6	−2.5	−3.7	27.2	−3.5	+1.5	do	20.8	1.1
Lancaster	II	II	II	83.4	−1.1	+1.6	43.9	−3.0	+2.2	Moderate increase	36.8	2.3
Philadelphia [3]	III	III	III	1,402.5	−.3	−.4	641.7	−1.8	−.9	No change	30.8	1.8
Pittsburgh [3]	III	III	III	800.0	−2.8	−3.2	355.6	−6.1	−6.5	Moderate increase	24.6	.8
Reading [3]	III	III	III	96.7	−.9	−2.0	52.2	−2.1	−4.0	Slight decrease	33.7	2.0
Scranton	IV	IV	IV	83.2	+.1	−.3	31.0	−2.1	+1.0	Moderate increase	36.0	1.8
Wilkes-Barre-Hazleton [3]	IV	IV	IV	116.2	−1.5	−3.5	36.8	−5.2	−5.0	Slight increase	40.4	1.8
York [3]	II	II	II	82.4	−1.4	+1.4	49.2	−2.5	+3.3	do	32.2	2.8
Puerto Rico:												
Mayaguez	IV	IV	IV	20.7	−4.6	−12.7	11.8	−3.3	−27.2	(9)	55.6	.1
Ponce	IV	IV	IV	18.7	−.5	−11.0	7.5	+1.4	−11.8	(9)	40.6	2.8
San Juan	IV	IV	IV	128.9	+8.3	+15.5	18.1	−10.0	−1.6	(9)	25.4	2.4
Rhode Island: Providence [3]	IV	IV	IV	288.4	−1.2	−5.1	140.0	−3.4	−9.0	Slight decrease	39.3	2.4
South Carolina:												
Aiken-Augusta	II	II	I	79.5	−4.6	−16.4	23.6	−.5	+19.6	Moderate increase	29.5	2.1
Charleston [3]	III	III	II	50.8	+1.5	−1.6	16.8	+.9	−5.9	do	30.2	2.9
Greenville [3]	III	III	III	58.3	+.5	−.8	28.6	−1.9	−4.5	Slight increase	38.7	2.0
Tennessee:												
Chattanooga [3]	III	III	III	91.4	−2.2	−.3	44.8	−3.3	+1.5	do	32.9	2.1
Knoxville [3]	III	III	III	120.6	+1.4	+7.7	45.5	−1.4	+3.2	do	27.5	(9)
Memphis [3]	III	III	III	170.1	−.4	−2.2	44.0	−2.2	−.8	do	32.8	1.2
Nashville [3]	III	III	III	123.4	−.6	+.4	36.2	−1.5	−.7	do	36.4	2.2
Texas:												
Austin	III	III	III	49.8	+.9	+1.8	4.1	+1.6	+1.8	No change	38.0	3.5
Beaumont-Port Arthur	III	III	III	66.8	−.3	−1.7	26.2	−.7	+.1	do	22.5	.4
Corpus Christi	III	III	III	52.3	−.4	+2.9	7.5	+.3	+8.3	do	26.6	1.4
Dallas	II	II	II	267.3	+.2	+3.1	74.9	.0	+5.2	do	34.7	4.1
El Paso	III	III	III	56.8	+.5	+3.5	10.7	−.9	+6.9	Slight decrease	33.9	2.3
Fort Worth	III	III	III	150.1	−.5	−2.7	50.1	−2.7	−10.6	do	29.3	2.5

Houston	II	II	II	308.0	+1.0	−.5	80.3	−1.4	−4.0	No change	27.2	1.7
San Antonio	III	III	III	155.7	−1.4	−5.4	19.3	−1.4	−3.0	do	37.7	2.9
Utah: Salt Lake City [3]	III	III	III	105.5	−2.5	−.6	16.8	−.1	+2.4	Substantial decrease	27.9	(9)
Virginia:												
Hampton-Newport News-Warwick.	II	II	II	56.6	−.3	−2.8	20.0	−1.5	−4.6	No change	26.3	3.7
Norfolk-Portsmouth	II	II	II	138.4	(7)	−2.0	31.2	−2.5	−5.2	Slight increase	30.2	1.2
Richmond	II	II	II	139.9	−.1	−.6	37.9	−3.1	−.8	do	33.1	1.3
Roanoke	III	III	III	52.0	.0	+.5	13.8	−.6	−.7	No change	32.5	2.9
Washington:												
Seattle [3]	III	III	III	282.0	−1.5	+1.6	80.3	−2.8	+7.5	No change	36.4	2.4
Spokane [3]	III	III	III	68.7	−4.7	−1.2	13.7	−8.7	−2.1	Slight decrease	30.1	1.8
Tacoma [3]	IV	IV	IV	71.3	−3.3	−2.6	17.4	−6.4	−5.4	do	29.0	2.3
West Virginia:												
Charleston [3]	III	III	III	98.0	−.5	−1.[illegible]	27.9	−2.1	+3.5	No change	21.8	(9)
Huntington-Ashland	III	III	III	67.3	−1.7	+2.1	26.0	−2.8	+5.3	Moderate increase	27.8	1.4
Wheeling-Steubenville	III	III	III	113.5	−1.2	−2.2	55.7	−1.2	−3.3	Slight increase	23.7	.6
Wisconsin:												
Kenosha	IV	IV	II	25.6	0	−11.4	17.4	−1.7	−16.1	No change	25.8	.8
Madison	II	II	II	53.4	+2.3	+3.5	14.8	+4.1	−.1	Slight decrease	40.5	2.6
Milwaukee	III	III	II	374.0	−1.2	−3.3	193.5	−3.5	−7.2	No change	29.2	1.5
Racine	III	III	III	38.6	−2.7	−2.3	22.2	−5.0	−6.1	Moderate increase	34.8	1.7

EXPLANATORY NOTES

The data presented here are derived from the regular bimonthly area labor market reports received by the Bureau of Employment Security from affiliated State employment security agencies. Each area listed consists of a principal city or cities and the surrounding area within a reasonable commuting distance. More detailed information on any of these areas may be obtained from the Bureau of Employment Security or from the appropriate affiliated State employment security agency, listed on the inside back cover. Employment data relate to total wage and salaried workers for the payroll period ending nearest the 15th of the month. Self-employed, unpaid family workers, and domestics are excluded.

[1] Explanation of classification codes:

Group I—Areas of labor shortage: Areas in which labor shortages exist or are expected to occur in the near future which will impede "essential activities."

Group II—Areas of balanced labor supply: Areas in which current and prospective labor demand and supply are approximately in balance.

Group III—Areas of moderate labor surplus: Areas in which current and prospective labor supply moderately exceeds labor requirements.

Group IV—Areas of substantial labor surplus: Areas in which current and prospective labor supply substantially exceeds labor requirements.

[2] Based on employment schedules of establishments for which reports are collected through the normal operations of the employment security program. In most areas, reporting employers account for at least 65 percent of all manufacturing employment.

[3] Employment statistics for these areas have been developed entirely or in part under the Bureau of Labor Statistics-Bureau of Employment Security-State agency joint employment statistics program.

[4] See Aiken-Augusta, S. C.

[5] Data relate to month of November and for Illinois portion of area only.

[6] Data for September 1953 and November 1952 have been revised.

[7] Change of less than 0.05 percent.

[8] Employment statistics for these areas have been developed entirely or in part under the BLS employment statistics program jointly with an agency other than the State employment security agency.

[9] Information not available.

Labor market indicators, smaller group IV areas

State and area	Data relate to—	Unemployment		Nonagricultural wage and salary employment (in thousands)						Employer forecasts of labor requirements 4 months from date of data
				Total			Manufacturing			
		Severity [1]	Percent change since year ago	Number	Percent change from— 2 months ago	Percent change from— Year ago	Number	Percent change from— 2 months ago	Percent change from— Year ago	
Alabama:										
Gadsden	November 1953	X	+42.6	24 6	−1 3	−6 5	13.5	−2 6	−9.7	Slight increase.
Jasper	October 1953	X	−25.0	10 0	0	+1 5	2.4	0	+11.4	Do.
Georgia: Cedartown-Rockmart	May 1953	X	+107.1	9 1	+.9	−7.0	4 6	+2 2	−13 3	Substantial decrease.
Illinois: Herrin-Murphysboro-West Frankfort	August 1953	Z	+.9	37 7	+2.2	−6.0	8.3	+3 4	+16 0	Moderate increase.
Indiana: Vincennes	June 1953	X	−34.6	10.2	+2.4	+5.5	2.6	+7.5	+30.8	Slight increase.
Kentucky:										
Corbin	November 1953	Y	+37.4	8 5	−3 8	−1.0	1.1	−11 8	−1 3	No change.
Hazard	September 1953	X	+7 7	12 6	−.1	−7 0	.7	0	−19 3	Do.
Madisonville	November 1953	X	+82 8	13 8	+.9	−3 6	1 1	−17 2	−12 8	Moderate decrease
Middlesboro-Harlan	September 1953	X	−25 8	19.3	−.5	−4 3	1 7	0	+4 4	No change.
Paintsville-Prestonsburg	November 1953	Y	+47.5	9 7	−2 8	−3.8	.2	0	0	Slight decrease
Pikeville	October 1953	Y	−9 3	9 4	−3 6	−7 5	5	0	−10 7	No change
Maryland: Cumberland	August 1953	X	−23 0	32.3	+1.0	+4 2	11 1	+1 9	+ 1	Slight decrease
Massachusetts: Webster	November 1953	X	+72.7	17 5	−5 7	−7 9	12 4	−6 9	−10.0	Do
Michigan: Tonia-Belding-Greenville	December 1953	X	+21.4	13.3	+.8	+ 8	8.5	0	−5 6	Slight increase.
New York: Gloversville	June 1953	Y	−30.2	15 2	+5.1	+4.2	9 8	+6 9	+7 7	Moderate increase.
Pennsylvania.										
Clearfield-DuBois	July 1953	X	−16.5	30.2	+ 2	+2 7	10 8	−1 4	+5 9	Slight increase.
Indiana	November 1953	Y	+46.7	14.0	−1.1	−7 0	2.5	+6 4	−9.1	Moderate decrease.
Pottsville	do	Y	+42.9	63 4	+1.7	−3 7	21.4	+ 7	−.5	Slight decrease.
Sunbury-Shamokin-Mt. Carmel	July 1953	X	+25.0	49 8	− 8	+1.4	21 7	−1 7	+6 6	Moderate increase.
Uniontown-Connellsville	November 1953	Y	+16 2	36.8	−2.1	−2.1	7 5	−3 2	+.7	Slight decrease.
Tennessee:										
La Follette-Jellico-Tazewell	do	Z	+22.5	6 3	+1.2	−8 4	2 2	0	−7.4	No change.
Newport [2]	July 1953	Z	([3])	2.9	−6 5	−30.1	1 1	−18 0	−34 4	Substantial increase.
Texas: Texarkana	December 1953	X	+42.6	33.4	−3 6	−11 9	8.2	−7.6	−9 6	Slight decrease.

Virginia:										
Big Stone Gap-Appalachia	July 1953	Y	+11.1	11.4	-4.2	-13.3	.7	0	-6.7	Substantial decrease.
Covington-Clifton Forge	December 1953	Y	+62.5	9.0	-7.9	-10.6	3.7	-5.6	-8.6	Slight decrease.
West Virginia:										
Beckley	September 1953	X	(3)	18.6	+.5	-6.6	1.2	+6.3	+.8	Do.
Fairmont	October 1953	X	-21.3	19.9	-.1	-2.1	5.2	+.6	+5.3	No change.
Morgantown	do	X	(3)	15.9	+.2	-3.8	3.5	+.9	-3.0	Moderate decrease.
Parkersburg	August 1953	W	-33.5	25.5	+.6	+4.4	10.8	+2.6	+10.7	Do.
Point Pleasant	do	X	-18.1	8.8	-3.7	+.5	4.2	+.7	+13.5	Slight decrease.
Ronceverte-White Sulphur Springs	do	X	-16.2	8.0	-.6	-5.5	1.0	+1.9	+4.0	Substantial decrease.

[1] Explanation of symbols indicating severity of unemployment:
W—Approximately 6 percent of area's labor force.
X—7 to 9 percent of labor force.
Y—10 to 14 percent of labor force.
Z—15 percent and over.

[2] Employment data for the Newport, Tenn., area cover only central (Cocke County) sector of area. Data significantly affected by food processing dispute in progress in July 1953.

[3] Information not available.

I. The Labor Market Today

The current labor market situation reflects a continuation of the shifting trends which began some months ago. Initial claims, which are notices of new unemployment filed in local employment offices, were higher each week in January than they were for the corresponding weeks of any year since the end of World War II. Despite these increases, the customary seasonal pattern has prevailed with initial claims volume reaching a peak of 468,900 during the week of January 9 and declining in the next 2 weeks to 410,600 for the week ending January 23. The January 9 rise was, for the most part, the result of (1) temporary layoffs in a wide variety of industries for inventory taking; (2) further post-Christmas layoffs in retail trades; and (3) the postponement of some claims from the preceding holiday week.

The volume of initial claims during the week ending January 23 (410,600) compared with 444,800 the preceding week and 208,500 in the comparable week of January 1953.

During the week of January 23, the decline was widespread as 36 States experienced a reduction. Pennsylvania showed the largest reduction (8,100), largely due to fewer claims from anthracite miners. Although such claims dropped 6,000 in New York, this week's total was more than 21,000 above the same week a year ago. In 6 other States—Florida, Illinois, Indiana, Maryland, Michigan, and Missouri—the declines ranged from 2,000 to 2,800. A pickup in the tobacco industry accounted for the drop in Florida. The reduction in Michigan followed an upswing in the preceding week due to large temporary and indefinite layoffs in the automobile industry. Illinois continued to report substantial layoffs in the machinery, transportation equipment, leather products, and metals industries. Another group of 9 States—Alabama, California, Georgia, Louisiana, Massachusetts, New Jersey, North Carolina, Ohio, and Virginia—reported initial claims reductions ranging from 1,000 to 1,700. In California a sharp drop in claims from apparel, trade, citrus-packing, and fish-processing workers was offset in part by an increased number from workers in the lumbering, electrical machinery, furniture, and aircraft industries.

Insured unemployment, which shows continued unemployment among workers covered by State unemployment insurance laws, has risen steadily each week since November 21, 1953. At that time the level of insured unemployment was slightly over 1 million. It has now doubled to 2,037,800 during the week ending January 16. Despite the rise, the level of insured unemployment is still below that of the comparable weeks of 1950.

During the week of January 9, insured unemployment at 1,951,900 represented 5.5 percent of covered employment (defined as the average for the 12 months ending March 1953). The accompanying map shows the rate of unemployment for each State during the week ending January 9, 1954, as compared with the rate of insured unemployment during the comparable weeks of the last 2 years and of January 1950, which was the heaviest month in the postwar period.

AREA LABOR MARKETS IN JANUARY

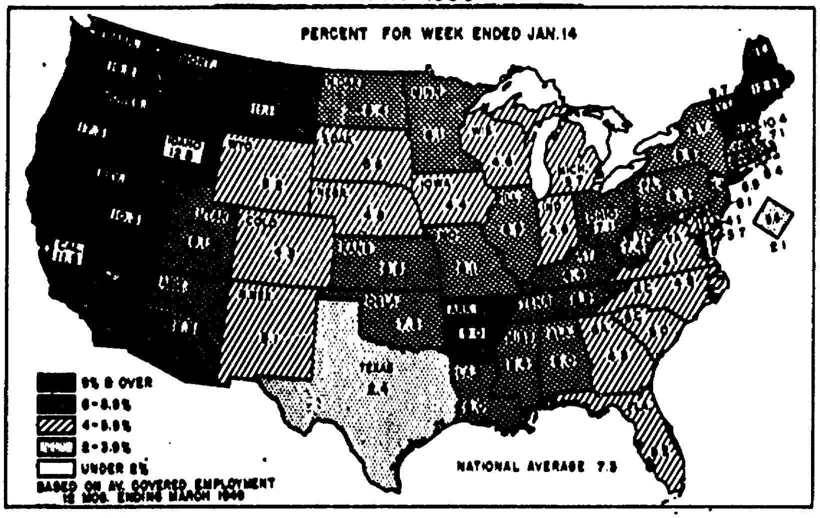
Declines in national employment totals, particularly in selected lines, which characterize the closing months of 1953, were being felt in almost all of the Nation's major production and employment centers as the new year opened. However, resultant increases in unemployment continued to be held to slight or moderate proportions in all but a few areas. This was indicated by the latest survey of area manpower conditions in 149 of the country's largest labor markets conducted by the Bureau of Employment Security in cooperation with affiliated State employment security agencies.

The survey indicated that more than nine-tenths of the areas covered—including such metropolitan centers as New York, Chicago, Los Angeles, Philadelphia, Detroit, Boston, and San Francisco-Oakland—experienced some increases in their jobless rolls since autumn of last year. Only in 18 areas, however, were the increases recorded of sufficient magnitude to warrant a shift in the area's previous (November) classification according to relative adequacy of labor supply.

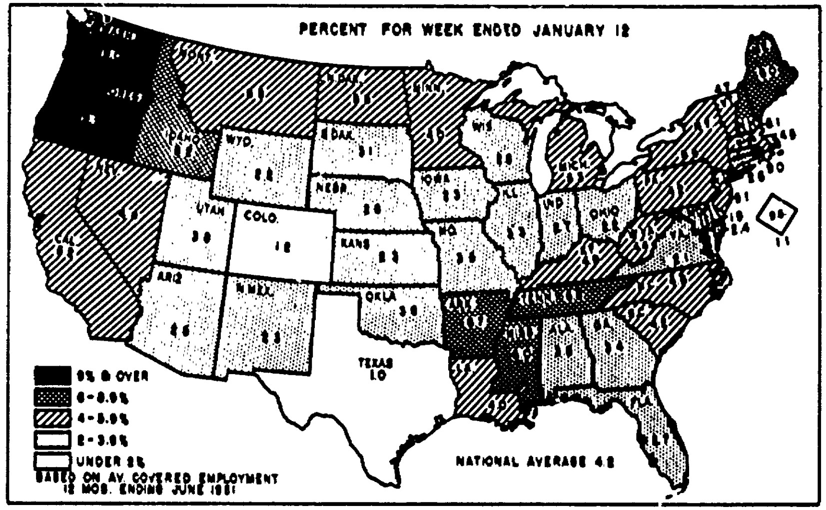
Fifteen of the eighteen areas whose labor-supply classifications were revised between November and January shifted from a situation of balance between labor demand and supply to one indicating a moderate labor surplus. Among this group were such key centers as Detroit, St. Louis, Kansas City, Louisville, and Minneapolis-St. Paul. One area, Saginaw, Mich., was transferred from the labor shortage to the balanced category. Only two major centers—New Bedford, Mass., and

PERCENT STATE INSURED UNEMPLOYMENT IN SELECTED WEEKS
JANUARY 1950, JANUARY 1952, JANUARY 1953, JANUARY 1954

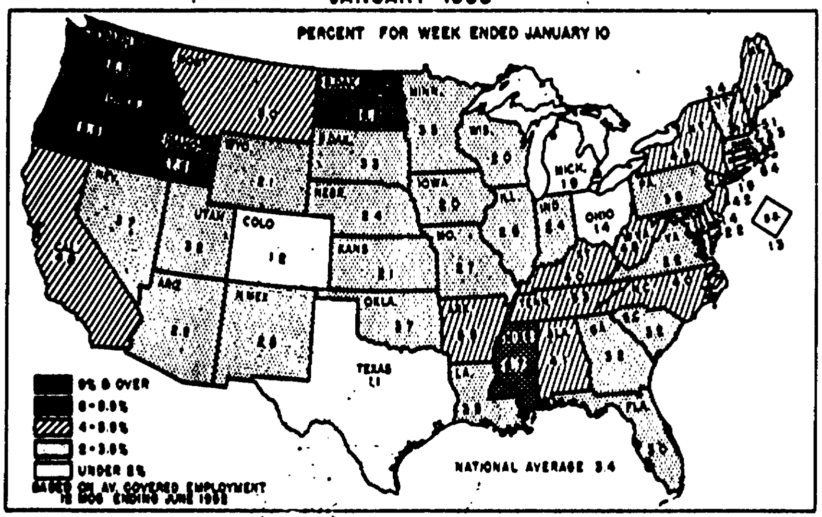
JANUARY 1950



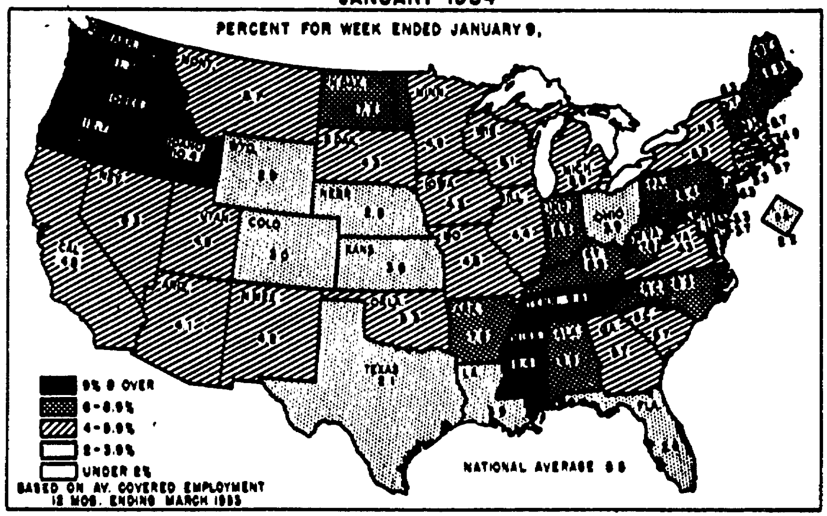
JANUARY 1952



JANUARY 1953



JANUARY 1954



UNITED STATES DEPARTMENT OF LABOR
Bureau of Employment Security
Division of Reports and Analysis

Muskegon, Mich.—were moved into a classification grouping reflecting a substantial surplus of labor. Seven smaller areas were also added to the list of localities with substantial labor surpluses during the 2-month period. Notwithstanding the recent increases in joblessness, however, 96 percent of the more than 33 million nonagricultural wage and salaried workers holding jobs in the 149 major surveyed areas were employed in areas with no more than a moderate labor surplus, while almost one-third worked in areas rated as tight or balanced.

A summary of January classifications for the 149 major areas is shown below, together with comparable figures from the previous summary released in November and from that of last January. The number of smaller areas classified because of the existence of substantial unemployment during each period is also indicated in the tabulation.

Classification	Major areas [1]			Description of classification
	January 1954	November 1953	January 1953	
Group I	1	2	4	Areas of labor shortage.
Group II	49	63	67	Areas of balanced labor supply.
Group III	79	66	60	Areas of moderate labor surplus.
Group IV	20	18	18	Areas of substantial labor surplus.
Total	149	149	149	
	Smaller areas			
Group IV	31	24	19	Do.

[1] The number of major areas covered by the area labor market reporting program has been cut from 182 to 149. The summary data for January 1953 area classifications included in the above tabulation represent revisions—designed to maintain comparability with present area coverage—from figures previously released for that month.

The turn-of-the-year classifications again reflected the continued employment declines resulting from the slack in the market for some lines of consumers hard goods. Dips in several soft-goods industries—particularly in textiles—as well as the usual winter-season declines in construction and food processing employment and post-holiday layoffs in trade also contributed to the loosening of labor supply in several areas. Rising labor surpluses were particularly evident in several important auto centers, as the industry's payrolls continued to edge downward under the impetus of still-lagging sales volumes for certain makes of cars, and year-end layoffs for model changeover. Supplier plants, especially foundries and metal fabricating establishments, in a number of areas were also adversely affected. Additional cutbacks in nonelectrical machinery (mostly farm equipment and household appliances) and basic steel prompted increases in jobless totals in other centers. As in the previous classification period, revised defense production schedules again contributed to the easing of labor supply in some areas, with losses concentrated in aircraft and ordnance. Some reduction in civilian employment at military installations also played a part in the reclassification of some localities.

The recent area manpower survey resulted in the reclassification of the following major areas between November and January:

I to II	II to III		III to IV
Saginaw, Mich.	Battle Creek, Mich. Binghamton, N. Y. Canton, Ohio. Detroit, Mich. Fort Wayne, Ind. Joliet, Ill. Kansas City, Mo.-Kans. Louisville, Ky.	Minneapolis-St. Paul, Minn. Oklahoma City, Okla. Perth Amboy, N. J. Sacramento, Calif. St. Louis, Mo. Trenton, N. J. Wilmington, Del.	Muskegon, Mich. New Bedford, Mass.

In addition to these changes, seven smaller areas—Covington-Clifton Forge, Va., Gadsden, Ala., Indiana, Pa., Ionia-Belding-Greenville, Mich., LaFollette-Jellico-Tazewell, Tenn., Texarkana, Tex-Ark., and Webster, Mass.—were added to the list of smaller centers classified in group IV.

Probably the most significant of the November-January classification changes, in terms of its economic implications for other areas, was the transfer of Detroit from the group II (balanced labor supply) category to a group III (moderate surplus) rating. Employment in the Nation's leading auto center dropped to a 14-month law at the year end, as auto payrolls slipped more than 35,000 below year-ago levels and 60,000 under the late-spring peak. Resumption of large-scale production of hydromatic transmissions—halted temporarily by a disastrous fire in mid-August—was more than offset by year-end layoffs for model changes and to bring production in line with curtailed sales volume. Additional work-staff reductions were reported by several auto producers in early January, further increasing the area's already moderate labor surplus.

The impact of reduced auto payrolls fanned out beyond the borders of the Detroit area, however. Year-end layoffs in auto and auto part plants (due partially to retooling for the 1954 model run) contributed to some extent to the reclassification of three other major Michigan areas—Battle Creek, Mich., and Saginaw—as well as to changed classifications for the major industrial centers of St. Louis and Kansas City. Fort Wayne, Ind., and Trenton, N. J., also owed their January classification shift, in part, to curtailments in local automotive plants. In most of these areas, however, concurrent cutbacks in other locally important industries were of equal or greater importance in the classification reassignments.

In the Battle Creek area, which moved from group II to group III in January, the widening downtrend in aircraft employment continued to be the key factor in the area's increasing labor surplus. Recent job declines have pushed unemployment in this area—which was classified as a group I area of labor shortage as recently as last September—to nearly triple its year-ago level. These increases were, however, considerably smaller than those reported in the nearby Muskegon area. An 8-month long downtrend in employment, centered in the area's dominant foundry and machinery industries, in addition to the recent declines in auto parts, boosted joblessness in this area to a 3-year high. Its classification changed to group IV, substantial labor surplus.

Areas previously regarded as labor shortage areas also experienced employment declines in auto parts and foundries, as in the Saginaw area, shifting the area from the group I (labor shortage) category to group II (balanced labor supply). With this reclassification, only one area—Hartford, Conn.—remained in the labor shortage category in January.

Auto plant losses, staff reductions in aircraft, ordnance, primary metals, and apparel, and seasonal nonmanufacturing declines—all influenced the transfer of the St. Louis area to group III. A similar classification shift for the Kansas City area was traceable, in part, to decreases in metals fabrication and chemicals.

Sizable reductions in ordnance, accompanied by further declines in farm equipment, helped move the Louisville area out of the balanced labor supply category. A minor decline in farm machinery was also a contributing factor in the shift of Minneapolis-St. Paul to a moderate surplus classification, although the usually heavy seasonal curtailments in construction and transportation carried somewhat greater weight. Seasonal curtailments—affecting primarily food-processing activities—also played a prominent role in the reclassification of the Sacramento, Calif., area.

Predominant factors in other labor market classification shifts were declines in chemicals (Wilmington, Del.; Perth Amboy, N. J.), primary metals and machinery (Canton, Ohio), military installations (Oklahoma City, Okla.), construction and construction machinery (Joliet, Ill.), textiles and apparel (New Bedford, Mass.), and ordnance and construction (Binghamton, N. Y.). All of these areas, except New Bedford, now classified in group IV, were reclassified from balanced to moderate labor surplus groupings in January.

EMPLOYERS' YEAR-END PLANS FOR HIRING CAUTIOUSLY OPTIMISTIC

Area employer hiring plans, as reported to local public employment offices at the end of 1953, add up to a possible check of the recent employment downtrend by mid-March. Slightly more than half of the 149 major areas surveyed anticipated little or no change in their overall employment levels between January and March; another one-third—among them such sizable areas as Los Angeles, St. Louis, Baltimore, Cincinnati, Atlanta, Providence, and Seattle—even looked for slight to moderate increases. Year-end employer hiring plans foreshadowed a measurable downturn in only 20 areas; in all but 2, the declines were expected to be relatively small. Four very large areas (Pittsburgh, Washington, D. C., Denver, and Louisville) were included in the group where slight decreases were scheduled.

Expectations concerning the beginnings of the usual seasonal pickup in some nonmanufacturing activities with the onset of spring represented, of course, an important influence on these employer year-end hiring forecasts. But manufacturing employers were also generally showing a cautious optimism about their ability to maintain, if not increase, their January payroll totals to mid-March. Ninety-five of the 149 areas surveyed anticipated little net change in the size of their factory workforce during the first quarter of this year, while employers in 41 other centers predicted slight to moderate gains. Los Angeles, St. Louis, Cleveland, Baltimore, and Minneapolis-St. Paul were among the larger areas included in this group. Only 13 areas foresaw a measurable drop in factory employment between January and March, with San Francisco-Oakland, New Orleans, Denver, and Louisville among the more prominent.

Among the industries likely to show some pickup to mid-March on the basis of area reports to local public employment offices are farm machinery, large household appliances (refrigerators and washing machines), and aircraft. The year-long downtrend in farm machinery appears to have run its course, with only one of the industry's major centers (Louisville) expecting further declines to March. A relatively sizable number of farm-equipment workers—although still far below the totals released during the past year—are scheduled to be recalled in the Davenport-Rock Island-Moline, Iowa-Illinois area, and in Racine, Wis. Gains in major household appliances are expected to be centered in Syracuse, N. Y., while Birmingham, Ala., Hartford, Conn., Baltimore, and Seattle are due to pace the uptrend in aircraft.

Recalls of auto workers as the 1954 model run moves into full swing are expected to add to job totals in several key auto centers, particularly Flint and Lansing, Mich., and Buffalo, N. Y., but continuing marketing uncertainties may prevent the industry's workforce from rising above year-end levels. Employers' hiring plans in major steel centers and textile areas add up to little overall change in employment totals for these industries to mid-March.

On the other hand, further declines appear in the offing through March for ordnance, shipbuilding, communications equipment, and tires. The Albany-Schenectady-Troy area in New York, Springfield-Holyoke, Mass., Louisville, and Detroit are expected to bear the brunt of the ordnance reductions. Shipbuilding cutbacks are scheduled to be centered in Boston, San Francisco-Oakalnd, and Philadelphia, while the bulk of the anticipated drop in communications equipment appears likely to be concentrated in Chicago's major electronic plants. Akron, Ohio, will, of course, be hardest hit by the forecast curtailment in tire manufacturing, but scheduled cutbacks will affect only a very small proportion of the area's workforce.

The labor market indicators which are attached show the current situation and the outlook for each area.

Classification of labor market areas according to relative adequacy of labor supply, January 1954

REGION I

Group I	Group II	Group III	Group IV
Hartford, Conn.	Bridgeport, Conn. New Britain, Conn. New Haven, Conn. Stamford-Norwalk, Conn Waterbury, Conn.	Portland, Maine. Boston, Mass. Brockton, Mass. Fall River, Mass. Springfield-Holyoke, Mass. Worcester, Mass. Manchester, N. H.	Lawrence, Mass Lowell, Mass. New Bedford, Mass.* Webster, Mass.[1] Providence, R. I.

REGION II

Group I	Group II	Group III	Group IV
	Buffalo, N. Y. Rochester, N. Y. Syracuse, N. Y.	Newark, N. J. Paterson, N. J. Perth Amboy, N. J. Trenton, N. J. Albany-Schenectady-Troy, N. Y. Binghamton, N. Y. New York, N. Y. Utica-Rome, N. Y.	Atlantic City, N J. Gloversville, N. Y.[1] Mayaguez, P. R. Ponce, P. R. San Juan, P. R.

Classification of labor market areas according to relative adequacy of labor supply, January 1954—Continued

Group I	Group II	Group III	Group IV
REGION III			
	Baltimore, Md. Charlotte, N. C. Allentown-Bethlehem, Pa. Harrisburg, Pa. Lancaster, Pa. York, Pa. Hampton-Nwport News-Warwick, Va. Norfolk-Portsmouth, Va. Richmond, Va.	Wilmington, Del. Washington, D. C. Greensboro-High Point, N. C. Erie, Pa. Philadelphia, Pa. Pittsburgh, Pa. Reading, Pa. Roanoke, Va. Charleston, W. Va. Huntington, W. Va.-Ashland, Ky. Wheeling, W. Va.-Steubenville, Ohio.	Cumberland, Md.[1] Asheville, N. C. Durham, N. C. Winston-Salem, N. C. Altoona, Pa. Clearfield-DuBois, Pa.[1] Indiana, Pa.[1] Johnstown, Pa. Pottsville, Pa.[1] Scranton, Pa. Sunbury-Shamokin-Mount Carmel, Pa.[1] Uniontown-Connellsville, Pa.[1] Wilkes-Barre-Hazleton, Pa. Big Stone Gap-Appalachia, Va.[1] Covington-Clifton Forge, Va.[1] Beckley, W. Va.[1] Fairmont, W. Va.[1] Morgantown, W. Va.[1] Parkersburg, W. Va.[1] Point Pleasant, W. Va.[1] Ronceverte-White Sulphur Springs, W. Va.[1]
REGION IV			
	Jacksonville, Fla. Miami, Fla. Atlanta, Ga. Macon, Ga. Aiken, S. C.-Augusta, Ga.	Birmingham, Ala. Mobile, Ala Tampa-St. Petersburg, Fla. Columbus, Ga. Savannah, Ga. Jackson, Miss. Charleston, S. C. Greenville, S. C. Chattanooga, Tenn. Knoxville, Tenn. Memphis, Tenn. Nashville, Tenn.	Gadsden, Ala.[1]* Jasper, Ala.[1] Cedartown-Rockmart, Ga.[1] La Follette-Jellico-Tazewell, Tenn.[1] Newport, Tenn.[1]
REGION V			
	Flint, Mich. Grand Rapids, Mich. Kalamazoo, Mich. Lansing, Mich. Saginaw, Mich. Akron, Ohio. Cincinnati, Ohio. Cleveland, Ohio. Columbus, Ohio. Dayton, Ohio. Hamilton-Middletown, Ohio. Lorain-Elyria, Ohio. Youngstown, Ohio.	Louisville, Ky. Battle Creek, Mich. Detroit, Mich. Canton, Ohio. Toledo, Ohio.	Muskegon, Mich.* Corbin, Ky.[1] Hazard, Ky.[1] Madisonville, Ky.[1] Middlesboro-Harlan, Ky.[1] Paintsville-Prestonsburg, Ky.[1] Pikeville, Ky.[1] Ionia-Belding Greenville, Mich.[1]
REGION VI			
	Aurora, Ill. Chicago, Ill. Rockford, Ill. Indianapolis, Ind. Madison, Wis.	Davenport, Iowa-Rock Island-Moline, Ill. Joliet, Ill. Peoria, Ill. Evansville, Ind. Fort Wayne, Ind. South Bend, Ind. Duluth, Minn.-Superior, Wis. Minneapolis-St. Paul, Minn. Milwaukee, Wis. Racine, Wis.	Herrin-Murphysboro-West Frankfort, Ill.[1] Terre Haute, Ind. Vincennes, Ind.[1] Kenosha, Wis.*

Classification of labor market areas according to relative adequacy of labor supply, January 1954—Continued

REGION VII

Group I	Group II	Group III	Group IV
	Cedar Rapids, Iowa Des Moines, Iowa Wichita, Kans. Omaha, Nebr.	Kansas City, Mo. St. Louis, Mo.	

REGION VIII

Group I	Group II	Group III	Group IV
	Tulsa, Okla. Dallas, Tex. Houston, Tex.	Little Rock-North Little Rock, Ark. Baton Rouge, La. New Orleans, La. Shreveport, La. Oklahoma City, Okla. Austin, Tex. Beaumont-Port Arthur, Tex. Corpus Christi, Tex. El Paso, Tex. Fort Worth, Tex. San Antonio, Tex.	Texarkana, Tex.-Ark.[1] *

REGION IX

Group I	Group II	Group III	Group IV
	Denver, Colo.	Salt Lake City, Utah	Albuquerque, N. Mex.*

REGION X

Group I	Group II	Group III	Group IV
	San Diego, Calif.	Phoenix, Ariz. Fresno, Calif. Los Angeles, Calif. Sacramento, Calif. San Bernardino-Riverside, Calif. San Francisco-Oakland, Calif. San Jose, Calif. Stockton, Calif. Honolulu, T. H.	

REGION XI

Group I	Group II	Group III	Group IV
		Portland, Oreg. Seattle, Wash. Spokane, Wash.	Tacoma, Wash.*

[1] Smaller areas covered because of substantial labor surpluses. These areas are not part of the regular major area reporting program of the Bureau of Employment Security and its affiliated State employment security agencies.

*Areas in the group IV column marked with an asterisk do not meet the criteria for classification as chronic labor surplus areas in which certified defense facilities may receive additional tax amortization consideration.

II. Review of Labor Market Developments

The year 1953 was one of record prosperity. More people were employed than ever before and unemployment fell to a new postwar low. The labor market generally reflected the highly favorable economic developments in personal income, savings, industrial production, and total output of goods and services. The year as a whole was marked by expanded utilization of manpower and industrial resources, increases in productive capacity, a rise in living standards and a greater overall stability in the cost of living. 1953 was also a year of transition—during which the economy shifted from a period of material and manpower shortages, induced by defense buildup following Korea, to one in which labor supply in all occupations except a few professional shortage occupations is adequate for demand. The change to a more competitive market meant

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adjustments, affecting many sectors of the economy and having an impact on the labor market—on workers and jobs.

The first half of the year, following the lifting of most material controls and an easing of supplies for the manufacture of consumer goods—particularly durable goods—was characterized by steadily rising economic activity. The demand for workers expanded and job opportunities were plentiful. Total employment reached a record 63.2 million by midyear while nonfarm employment exceeded any comparable previous period. Factory payrolls rose to a peak 17.2 million in June. Overtime work and premium pay were widespread, and average weekly earnings rose markedly over the previous year. Layoff rates were low and claims for unemployment insurance declined consistently to levels well below the comparable period in the previous year. Total unemployment at midyear was at a postwar low for the month.

The second half of the year was marked by a mild easing in labor demand. Even before the Korean truce, the Armed Forces had achieved their planned manpower strength and the drain on civilian manpower which had prevailed during the period of Armed Forces buildup had eased. Moreover, many of our defense requirement goals, in terms of plant capacity, production, equipment and replacement needs had either been reached or were close to attainment. In the latter half of 1953, it became obvious that the annual rate of defense expenditures had reached its peak and, barring a deterioration in the international situation, was entering a phase of some decline. New Government orders for defense equipment and supplies were slowing down.

The cutbacks in defense orders were but one facet of the economic picture in the latter half of 1953. As the fall approached, it became evident that sales and production were failing to show their usual upswing. While manufacturing employment remained at record levels, small employment declines, instead of the usual seasonal gains, were reported in a number of important industry groups. Production declined moderately in steel mill operations, the automobile industry, machine tools, farm equipment manufacture, and in a variety of consumer durable goods.

In the last quarter of the year, temporary, short-term layoffs began to rise more markedly than usual and claims for unemployment insurance rose at a faster rate than could be explained by normal seasonal development. Unemployment among workers covered by State unemployment insurance laws increased from 760,000 at the beginning of October to 1,401,000 in mid-December. Labor supplies in major production and employment centers showed a further easing—a trend which began around midyear. Toward the end of the year, of 149 major labor market areas surveyed, 129 had either a balanced labor supply or a moderate surplus, 18 had substantial labor surplus and only 2, as compared with 5 in May 1953 and 4 in November of the previous year, were classified as areas of labor shortage.

In carrying out their responsibilities to workers, employers, and the public local employment offices of the affiliated State employment security agencies registered some 7.9 million new applicants for work, about 9 percent more than in the previous year, and made approximately 6.3 million nonfarm placements—only 3 percent less than the number in 1952. Placements of farmworkers amounted to 9.3 million. The some 233,000 gain in agricultural placements, as compared with 1952, reflected farm placement service efforts to intensify its activities to recruit and direct the flow of migratory workers. In addition, over 200,000 Mexican farmworkers were recruited for temporary farmwork under the international migrant labor agreement with Mexico. Farm labor forces also were supplemented by workers from Puerto Rico, the West Indies, and Canada.

Local office staffs provided nearly 1.3 million job counseling interviews with applicants requiring assistance in making a vocational choice or adjustment—a total virtually unchanged from the previous year. They gave some 922,000 aptitude and other tests to job applicants, about 5 percent more than in the year prior. The employment security system continued to provide various Government agencies with current labor-market information for major production centers, labor surplus areas and critical industries and occupations. This information was used to guide plant location and procurement activities in accordance with available labor supplies.

With respect to unemployment insurance operations, local offices handled more than 11.3 million initial claims for unemployment benefits under State programs—some 2 percent more than in 1952—and took continued claims for nearly 51.5 million completed weeks of unemployment (5 percent fewer than in the previous year). Some 4.2 million claimants received 1 or more benefit checks during 1953 and a total of $962 million was paid out in benefits. Both the latter figures were below those for 1952 by 4 percent. The weekly benefit amount averaged around $23.58—up from $22.79 in the previous year—and the average period for which benefits were drawn amounted to 10.1 weeks, as compared with 10.4 weeks in 1952. Under the special program of unemployment compensation for veterans with service since Korea, local public employment offices paid out approximately $41.7 million to some 168,000 such veterans who drew one or more benefit checks.

Attached are tables showing the change in both volume and rates of insured unemployment, by State, each month in 1953 and in 1952. Also attached is a table showing benefit payments, by State for the years 1953, 1952, and 1949.

AREA LABOR MARKET DEVELOPMENTS DURING THE PAST YEAR

The Bureau of Employment Security's area classification according to relative adequacy of labor supply highlight the changing economic trends which characterized the past year, as well as the effects of these fluctuations on various localities throughout the country. As the year 1953 opened, labor supply in the Nation's major production and employment centers was in better balance than at any time since the Korean outbreak. Only 4 of the 149 major labor markets now classified by the Bureau of Employment Security according to relative adequacy of labor supply were placed in classifications denoting an overall shortage of labor (group I classification). At the opposite end of the labor supply scale, no more than 18 major areas (including 3 in Puerto Rico) were classified as group IV, a classification denoting a substantial labor surplus.

Together these 2 extremes in area labor supply accounted for only about 5 percent of the total number of nonagricultural wage and salaried workers employed in these 149 major areas.[1] In between, 67 areas with about 45 percent of the total employment in the major classified areas were classified as group II (balanced labor supply) last January, while 60 areas, with about 50 percent of all workers covered, were assigned group III (moderate labor surplus) classifications.

Labor supply in the Nation's major labor markets, as reflected by area classifications, continued to move in the direction of better balance during the late winter and early spring. By mid-May, the number of major areas classified in the substantial labor surplus category had decreased to 16, 2 less than the mid-January total. The number of tight and balanced areas also increased slightly between January and May, while those in the moderate surplus group remained constant.

An almost imperceptible slackening in the employment buildup which had characterized the previous year began to be noted in July 1953. For the first time since the spring of 1952, more areas were reclassified to categories denoting looser labor supplies in July 1953, than were shifted to tighter classifications.

Part of this increase in supply was, of course, attributable to the influx of school graduates, students, and other temporary summer workers into the labor market which usually occurs every July. However, the area labor market reports upon which these classifications are based indicated that the loosening in labor supply did not stem entirely from seasonal factors. Scattered payroll reductions—resulting from a dip in demand for several lines of consumer hard goods (particularly farm equipment and some makes of autos)—contributed to the easing of labor supply in some areas. In others, revised defense production schedules or declines in employment at Federal Government establishments or installations were important factors in the local increases in labor supply.

The gradual increase in area labor supplies continued throughout the summer and fall. Further declines in several farm machinery and auto centers were again primarily responsible, with localized cutbacks in some defense lines also a contributing factor. By mid-November, only 65 areas were classified in the group I or II (tight or balanced) categories, as compared with 73 at the May peak. The number of areas classified as having a moderate labor surplus increased from 60 to 66 between May and November, while those with substantial labor surpluses rose from 10 to 18.

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[1] Approximately 33 million nonagricultural wage and salaried workers, representing nearly 70 percent of the Nation's total, are employed in the 149 areas now regularly classified by the Bureau of Employment Security.

In the aggregate, these classification shifts indicate that the autumn dip in national employment totals had only a mild impact on most of the Nation's major production centers through mid-November. Of the 33 million nonagricultural wage and salaried workers employed in the 149 major classified areas, 44 percent worked in areas still rated as tight or balanced. This represented a drop of only three percentage points since May. At the same time, areas with substantial labor surpluses represented only 3.7 percent of the national employment totals in November as against 3.6 percent in May.

By mid-January, however, the effects of the declines in national employment totals which had characterized the closing months of 1953 were being felt in almost all of the Nation's major labor markets. However, resultant increases in unemployment, although now more widespread, continued to be held to slight-to-moderate proportions in all but a few areas. Only in 18 areas were the increases recorded of sufficient magnitude to warrant a shift in the area's previous (November) classification according to relative adequacy of labor supply.

Fifteen of the 18 areas reclassified in January of this year were moved from the balanced (group II) designation to one indicating a moderate labor surplus (group III). One area was moved from group I to group II, while two major areas were shifted into a classification reflecting a substantial surplus of labor.

The net effect of these classification shifts has been to reduce the number of areas now in the group I shortage category to 1—Hartford, Conn.—and those in group II to 49. Together, the 50 areas now in groups I and II accounted for 31 percent of all workers in major classified areas, as compared to 44 percent (for 65 areas) in November. Group III areas, now numbering 79, represent 65 percent of all employment, as against 53 percent (for 66 areas) in November. The 20 major areas rated as having substantial labor surplus thus represent only 4 percent of the Nation's employment totals.

These figures lend a measure of perspective concerning where our economy stands at the opening of 1954. They show that, notwithstanding the recent increases in unemployment, 96 percent of the more than 33 million nonagricultural wage and salaried workers holding jobs in these major labor markets were employed in areas with no more than a moderate labor surplus. Almost one-third of these worked in areas with balanced labor supplies.

A tabulation indicating the number of areas in each classification group, for each bimonthly period during the past year, as well as the distribution of employment by classification groups follows:

Classifications of labor market areas according to relative adequacy of labor supply, 149 major areas

[Bimonthly, January 1953–January 1954]

Classification groups	Number of areas						
	January 1953	March 1953	May 1953	July 1953	September 1953	November 1953	January 1954
Group I	4	5	5	5	3	2	1
Group II	67	67	68	65	64	63	49
Group III	60	60	60	63	64	66	79
Group IV	18	17	16	16	18	18	20
Total	149	149	149	149	149	149	149

Distribution of employment in major areas by classification groups, 149 major areas

[Bimonthly, January 1953–January 1954]

Classification groups	Percent of nonagricultural wage and salaried employment						
	January 1953	March 1953	May 1953	July 1953	September 1953	November 1953	January 1954
Group I	1.4	1.5	1.5	1.4	0.9	0.8	0.6
Group II	45.4	44.6	45.3	44.4	44.3	42 8	30.6
Group III	49.2	50.1	49.6	50 6	51.1	52.7	64.8
Group IV	4.0	3.8	3.6	3.6	3.7	3 7	4.0
Total	100.0	100.0	100.0	100.0	100.0	100 0	100.0

EXPLANATION OF CLASSIFICATION CODES

Group I—Areas of labor shortage. Areas in which labor shortages exist or are expected to occur in the near future which will impede "essential activities."

Group II—Areas of balanced labor supply: Areas in which current and prospective labor demand and supply are approximately in balance.

Group III—Areas of moderate labor surplus: Areas in which current and prospective labor supply moderately exceeds labor requirements.

Group IV—Areas of substantial labor surplus: Areas in which current and prospective labor supply substantially exceeds labor requirements.

III. Technical Notes

INSURED UNEMPIOYMENT STATISTICS

The estimates of insured employment prepared weekly by the Bureau of Employment Security are obtained as a byproduct of the operations of the State employment security programs. These data are reported to this Bureau by the affiliated State employment security agencies. The insured unemployment estimates represent a measure of the workers covered by the State unemployment compensation programs who are currently totally or partially unemployed and are claiming benefit payments. They are not a measure of the total number of unemployed in the Nation. However, since the State unemployment insurance programs cover almost all the important nonagricultural sectors of the economy the insured unemployment estimates derived from the operation of these programs present on a current basis information on developments in sectors which involve a significant portion of the labor force and which are of crucial importance to the economic well-being of the country. It is estimated that at present there are approximately 37 million nonagricultural wage and salaried workers (approximately three-fourths of all wage and salaried workers) covered by the State unemployment compensation programs. The discussion that follows reviews certain administrative aspects of the State unemployment compensation programs and the methodology used in arriving at the insured unemployment estimates.

Coverage of the State programs

The specific classes of workers and industries included in the unemployment insurance program of each State are influenced in a large measure by the taxing provisions of the Social Security Act, now the Federal Unemployment Tax Act.[1] As a result, the coverage provisions of all the State unemployment insurance acts are substantially similar. Although there are some differences, these involve relatively small groups of workers.

Employment covered by the State acts is defined mainly in terms of the services excluded from coverage. The main groups not covered are agricultural labor, domestic service in private homes, service for State and Federal governments, and employees of nonprofit organizations. Also excluded are railroad workers who have a separate unemployment insurance system under the Railroad Retirement Board.

[1] Employers who pay contributions under an approved State unemployment insurance act may credit their State contributions against the Federal tax up to 90 percent of the Federal tax.

In addition to the exclusion of these general groups from coverage, there are also provisions for exclusion of smaller firms within the industries covered by the unemployment compensation programs. There is some variation in these "size-of-firm" exclusion provisions among the States. In most States the determination is based upon the number of workers, though there are several States that use a minimum payroll requirement. As is shown in the tabulation that follows, the size of employment provisions vary from one worker to eight. Although there is no case where the minimum size of firm is above eight workers, there are some States that also have additional minimum payroll requirements. The table also shows the proportion of the total number of covered workers included in each size-of-firm group.

Summary of minimum size-of-firm provisions

Minimum number of workers	Number of States [1]	Percentage of total covered employment
1	[2] 15	30
3	2	7
4	8	23
6	2	9
8	22	31

[1] Includes the District of Columbia.
[2] Includes 6 States with minimum size of payroll as an added condition.

From a review of the exclusion provisions it becomes apparent that the bulk of the employment in manufacturing, construction, trade and service, and finance, insurance, and real-estate industries are covered by the State unemployment compensation programs.

Eligibility for and disqualification from benefits

The specific eligibility requirements for unemployed covered workers to receive benefit payments are established by each State in their unemployment compensation acts. All States require that an individual must earn a specific amount of wages or have worked a certain period of time within a given base period, or both, to qualify for benefits. The purpose of such qualifying requirements is to admit to participation in the benefit system only such workers as are genuinely attached to the covered labor force. This, of course, also means attachment to the total labor force. All States also require that a claimant to receive benefits must be able to work and available for work. These again, are provisions to insure that the individual receiving unemployment compensation is genuinely attached to the labor force.

In the administration of the "able-and-available" provisions, they have generally been interpreted in all States to include the requirement that a claimant must be "actively seeking work" to be eligible for benefit payments. However, about half the States now include in their unemployment compensation acts an "actively seeking work" provision in addition to the "able-and-available" eligibility requirements.

There are also in all the State laws disqualification provisions. The purpose of these provisions is to allow payment only to workers unemployed primarily as the result of economic causes. The major causes for disqualification from benefits are voluntary separation from work, discharge for misconduct, refusal of suitable work, and unemployment due to a labor dispute. In all States disqualification results in, at least, a postponement of benefits, while in some States it also involves a cancellation of benefits or a reduction of benefits otherwise payable.

In approximately two-fifths of the States the same pattern of disqualification penalties applies for voluntary leaving, misconduct, and refusal of suitable work. In the States with provisions for different disqualification penalties for different causes, misconduct is most often the cause for the heaviest penalty, voluntary leaving ranks second, and refusal of work third. In the case of disqualification for labor disputes the disqualification period in all States except two lasts, in general, as long as the stoppage of work is attributable to a labor dispute, rather than for a definite period of disqualification. In most States workers who are not directly involved in a labor dispute in the establishment where they are employed are eligible for benefits even if they become unemployed because of this dispute.

The theory of limited disqualification penalties is that after a time the reason for a worker's unemployment results from the general conditions of the labor market rather than from his disqualifying act. The disqualifying acts relate to standards that must be met to receive benefits but are not, as in the case of "able-and-available" to work requirements, primarily related to the attachment of the person claiming benefits to the labor force.

Unemployment compensation benefit claims

The methods used in all States to administer the payment of benefits to totally or partially unemployed covered workers is focused around the claim-filing procedures. An individual desiring to receive benefit payments must file certain types of claims. These are described below.

Initial claims.—When a worker covered by a State unemployment compensation program becomes unemployed he reports to a local office of the State employment security agency and files what is termed an "initial claim." This is a notice to the administrative agency of the beginning of a period of unemployment for this worker. He is usually expected to file this claim immediately after he is laid off from his job and is unemployed.

Continued claims.—These claims are filed by the unemployed worker during subsequent weeks (or biweekly in certain States) of unemployment after the filing of an initial claim. These claims certify to unemployment in previous weeks. Two types of claims are included in this category.

Claim or request for waiting period credit.—The waiting period is a noncompensable period of unemployment in which the worker must have been otherwise eligible for benefits. In most States this is a period of 1 week and applies only to the first spell of unemployment in a given benefit year. No waiting period is required in 2 States and 2 other States require an initial waiting period of 2 weeks. There are also a few States that require a 2-week waiting period for partial unemployment benefits.

Compensable claims.—After completion of the waiting period the continued claim becomes a compensable claim and represents a request for benefit payment for a full week of unemployment or a request for benefit payment for a week of partial unemployment.

Insured unemployment statistics

Insured unemployment statistics are based on the number of "weeks of unemployment" claimed by workers filing continued claims. These are reported weekly to the Bureau of Employment Security by the State employment security agencies.[1] Several adjustments are required in the "weeks of unemployment claimed." These are described in the subsequent paragraphs.

A continued claim filed in a given week certifies to unemployment in the preceding weeks. In estimates of insured unemployment these data are adjusted to cover the week in which the unemployment actually occurred. In making these adjustments several procedures are required to take into account the fact that about half the States are on a "calendar week" basis for certifying weeks of unemployment; i. e., the continued claim filed in the current calendar week certifies to unemployment in the preceding calendar week. The other half of the States are operating on what is termed "a flexible week" basis; in these cases the claim certifies to unemployment in the week immediately preceding the day the claim is filed in the current week. In the case of the States operating on a calendar week basis the weeks of unemployment claimed in the current week are used to represent insured unemployment in the preceding calendar week. In the flexible week States the weeks of unemployment claimed in a given week and those in the preceding week are averaged and the result is taken to represent insured unemployment in the preceding week.

Also it must be noted that about half the States are presently taking claims on a biweekly basis. This procedure was introduced because of budgetary limitations. In these States the usual procedure is to distribute the claims-taking load evenly over the working days in a 2-week period with each individual reporting on a specific day in this biweekly period. In view of this the weeks

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[1] To obtain an estimate of all unemployed workers covered by some type of unemployment compensation program, published insured unemployment statistics are often augmented by the number of unemployed persons covered by the railroad unemployment program and the unemployment compensation program for veterans; the number of persons involved in these programs is relatively small.

of unemployment claimed by the group reporting in a given week are assumed to be representative of the number that would have been claimed if each individual had reported on the weekly basis. The adjustment of the data for the week in which the claims are filed to the week in which the unemployment actually occurred then proceeds on the same basis as described above, depending on whether a flexible or calendar week filing procedure is used.

Nature and limitations of insured unemployment estimates

The concepts underlying the insured unemployment estimates and their characteristics derive from the nature of the operations of the State unemployment compensation programs. These were reviewed in some detail in the preceding discussion. The discussion that follows indicates how these factors are reflected in the insured unemployment estimates.

Because of the unemployment compensation regulations certain covered workers who are usually considered unemployed may not be eligible for benefits and therefore not included in the estimates of insured unemployment. One important group in this category, for example, are unemployed covered workers who are not available for work because of illness, another includes those unemployed persons whose previous jobs were in covered industries but who did not earn sufficient wage credits or were not employed the required length of time, or both. A third group not included in the insured unemployment estimates are persons who are eligible to receive benefits but for one reason or another do not apply. And finally, there is also a group of covered workers who are excluded from the insured unemployment figures because they have exhausted their unemployment compensation benefits. At present, this last group presents no significant problem in making estimates of the number of insured workers unemployed. The duration of employment has been short and the rate of exhaustions per month has been relatively low (ranging from 50,000 to 100,000 per month in the last 2 years). However, in periods when unemployment is substantial and of long duration, it may be expected that the volume of exhaustions would significantly affect the magnitude of the insured unemployment estimate. It is worth noting that in the previous period of relatively high unemployment, many States undertook special studies of this problem.

There may be an understatement in the insured unemployment estimates also because of the fact that all initial claims are excluded. This is done on the assumption that such claims are filed immediately after layoff and do not represent a full week of unemployment. When the first full week of unemployment occurs it is recorded in the continued claims figures. However, to the extent that some persons may delay the filing of an initial claim for a week or more even though they are actually unemployed and available for work, this would result in an understatement of the number of insured unemployed persons. On the other hand, the insured unemployment estimates are, of course, an overstatement of the number of insured workers totally unemployed because they include covered workers receiving partial unemployment benefits. During the past year such workers accounted for about 10 percent of the insured unemployment estimates.

Insured unemployment estimates have been extremely valuable in quickly reflecting national economic trends. Although there are some variations in the coverage provisions among the States, they all cover the same major segments of the national economy. The estimates, therefore, provide a highly useful measure of the economic changes in the more important nonagricultural activities. Moreover, they are the only major series on unemployment available on a very current and weekly basis, not only for the Nation as a whole but also for individual States. They are published within two weeks after the week during which the unemployment occurs.

CRITERIA AND PROCEDURE USED IN CLASSIFICATION OF LABOR MARKET AREAS

General explanation

Area classifications according to relative adequacy of labor supply are intended to provide a quick, convenient tool to measure comparative differences in the availability of labor (and general economic well-being) of the Nation's major production and employment centers. These condensed, summary indicators of area labor market conditions have been widely used by Government agencies and private organizations in the introduction, administration and evaluation of manpower programs and policies ever since the area classification program was first initiated in the early days of World War II.

The current system of classifying areas was adopted in July 1951—and reflects the changes in our national economy stemming from the Korean situation. It classifies the Nation's major labor markets (and selected smaller centers characterized by heavy unemployment) into four labor supply groups, as follows:

Group I—Areas of labor shortage: Areas in which labor shortages exist or are expected to occur in the near future which will impede "essential activities."

Group II—Areas of balanced labor supply: Areas in which current and prospective labor demand and supply are approximately in balance.

Group III—Areas of moderate labor surplus: Areas in which current and prospective labor supply moderately exceeds labor requirements.

Group IV—Areas of substantial labor surplus: Areas in which current and prospective labor supply substantially exceeds labor requirements.

The Bureau of Employment Security of the Department of Labor classifies every 2 months 149 major labor market areas throughout the Nation. A labor market area consists of a central city or cities and the surrounding territory within reasonable commuting distance. A major labor market area has at least one central city with an April 1950 population of 50,000 or more. In most cases where a central city has a population of 50,000, the entire labor market area has a population of 100,000 or more. A labor market area takes its name from the central city or cities. Usually there are many other communities within the boundaries of a labor market area. These may be identified by reference to the Director of Important Labor Market Areas, published by the Bureau of Employment Security.

An area smaller than that defined above may be classified in Group IV if such an area meets criteria for group IV designation, and the size criteria as outlined under "Classification criteria" below.

The area classifications are assigned according to uniformly-applied criteria. They are based on labor market reports, both narrative and statistical, submitted to the Bureau of Employment Security by affiliated State employment security agencies. These reports are prepared in accordance with nationally-established uniform reporting procedures. The reports are prepared locally, drawing upon labor market data available in the local public employment offices including information on current employment and unemployment levels and employer hiring plans. Area reports are submitted to the BES between the 15th and the 25th of the even-numbered months. Following the receipt of these reports a careful analysis is made of the employment, unemployment, and outlook in the area, and preliminary classifications are assigned to each area. These preliminary classifications are cleared with the State employment security agencies through the regional offices of the BES. In this clearance, the most recent significant changes in the labor market conditions in the areas are reported to the Bureau. The final classifications assigned thus, take into account the latest employment and unemployment developments in each area. The classifications are released approximately one week after clearance with the State agencies.

The procedures provide that any area may initiate a report at any time if it is believed that the conditions in that area are such as to warrant a possible classification in group IV. Thus, interim classification of an area to group IV can be made at any time.

The extent of unemployment in a particular area is one of the major factors in determining the area classification assigned to each locality. In determining the extent of unemployment, account is taken of the number of workers who are claiming unemployment insurance. Other criteria used in assigning area classifications include: the employment outlook as reflected by local employer estimates of manpower requirements, the relationship between labor supply and demand, and the seasonal pattern of employment and unemployment fluctuations.

Classification Criteria

GROUP I

1. The area is now characterized by a labor shortage and anticipated labor demand-supply relationship 2 and 4 months hence indicates a continuing significant labor shortage which is impeding or likely to impede essential activities.
2. Unemployment is 1.5 percent or less of total labor force.
3. Net nonagricultural labor requirement for 2 and 4 months hence are 3 percent or more of nonagricultural employment.
4. The current or anticipated substantial labor shortage is not primarily due to seasonal or temporary factors.

5. At least 40 percent of nonagricultural workers are engaged in essential activities.

GROUP II

1. The number of job opportunities now open to local workers is approximately equal to the number of available jobseekers in the area and this balance is expected to continue through the next 2 and 4 months period.
2. Unemployment is 1.5 percent to 3 percent of total labor force.
3. Net nonagricultural labor requirements for 2 and 4 months are 1.5 to 3.0 percent of nonagricultural employment.

GROUP III

1. The number of workers now seeking employment in the area is moderately in excess of currently available job opportunities and this situation is expected to continue through the next 2- and 4-month period.
2. Unemployment is 3.0–6.0 percent of total labor force.
3. Net nonagricultural labor requirements for 2 months and 4 months are less than 1.5 percent of nonagricultural employment.

GROUP IV

1. Unemployment is 6 percent or more of total labor force.
2. Net nonagricultural labor requirements for 2 and 4 months hence indicate declining employment levels or no significant labor requirements.
3. Anticipated labor demand-supply relationship 2 and 4 months hence indicates continuing substantial labor surplus.
4. The current or anticipated substantial labor surplus is not primarily due to seasonal or temporary factors.

Application of above criteria

For any one area, all of the criteria cited above may not indicate the same classification group. In such cases, the classification is assigned according to the most prominent and consistent indicators. Greatest weight is given to those indicators which reflect most accurately the area's current situation and anticipated employment outlook.

Thus, for example, a group III area's ratio of unemployment to the labor force may be 6 percent or more but the outlook may point to much improved employment and unemployment conditions which would reduce the unemployment ratio to below 6 percent.

Smaller group IV areas

A. Definition of a smaller area (for purposes of group IV designation): A smaller area is any labor market area which is not regularly classified and which meets the selection criteria indicated below:
1. Estimated labor force of at least 15,000.
2. Estimated nonagricultural wage and salaried employment of at least 8,000.
3. It is not primarily a trade or service center.

B. Group IV classification criteria for smaller areas: If a smaller area has met the minimum size criteria, it is subject to the same group IV classification criteria which apply to major areas.

Additional criteria to identify areas in which certified defense facility areas may receive additional tax amortization assistance by ODM (ODM Director's letter of October 26, 1953)

The criteria listed for Group IV above must be met and in addition:
1. The area is characterized by chronic heavy unemployment.
2. For the next 1- or 2-year period, known employment expansions by firms now in the area are not of sufficient size to use fully the area's present labor surplus.
3. Based upon currently available information, including World War II experience, the area will have a labor surplus for defense production even in the event of total mobilization.

Chairman WOLCOTT. Are there any questions of Mr. Goodwin, Mr. Clague or Mr. Eckler?

Representative BOLLING. I have a few questions, Mr. Chairman.

Mr. Goodwin, if I understand correctly, you make six major surveys a year; is that correct?

Mr. GOODWIN. On the areas, yes, sir. We regularly survey every 2 months.

Representative BOLLING. Have you always operated on an every 2-month basis?

Mr. GOODWIN. That program, as long as I have been with the Bureau, has been on that basis.

Mr. LEVINE. Yes. That program on a bimonthly basis has been in effect many years. However, during periods such as the material cutbacks when some areas got into the labor surplus category in group 4, we were requested by the Office of Defense Mobilization to provide some monthly surveys for some selected areas, and we did that.

Representative BOLLING. That would have been when?

Mr. LEVINE. That would have been in 1951 and parts of 1952, the early part of 1952.

Representative BOLLING. I take it you have no request to do it on a monthly basis now?

Mr. GOODWIN. Well, we have individual requests in terms of individual situations, but it increases the costs substantially, and we are not in a position to do it.

Representative BOLLING. You say it would increase the costs substantially; it seems to me this is very important data. Have you an estimate of how much it would increase the costs?

Mr. GOODWIN. I do not have one offhand, Mr. Congressman.

Representative BOLLING. How many people are involved in this work in Washington? I do not mean in the States.

Mr. GOODWIN. The Washington staff is rather small. How many do you have working on this, Mr. Levine?

Mr. LEVINE. In terms of full-time equivalents of people it would run about 12 people here in Washington. But I must indicate to you, Mr. Congressman, that these are analyses done here of data collected and assembled and analyzed and prepared out in the State and local communities where there are considerable numbers of individuals involved.

Representative BOLLING. I would like to have for the record—I know that you could not supply it now, but for the record—what you estimate the increase in costs would be and how many additional persons would be required to put this on a monthly, rather than once every 2 months, basis.

I understand that under the provisions of the act—I think it is the Wagner-Peyser Act—I may be incorrectly informed on it—that there are certain responsibilities for activity in doing something about unemployment from the national level, and I would like to know what is being done about that and how many people are involved in it, and what more could be done, and so on.

Am I correct in my information?

Mr. GOODWIN. Pardon?

Representative BOLLING. There is such a responsibility?

Mr. GOODWIN. The work of the Bureau is primarily concerned with 3 acts of Congress. One is the Wagner-Peyser Act; one is the Social Security Act, and the other is the GI Bill, the 2 versions of the GI bill.

In the Social Security Act, particularly, there is a mandate in this area you are talking about to study the problems of unemployment; that is also in the Wagner-Peyser—it is in both of them.

Representative BOLLING. Is it more than to study?

Mr. GOODWIN. The specific responsibilities of the Bureau in terms of the administration of unemployment insurance and unemployment service are spelled out, and we do that.

I take it you are talking something beyond that in terms of working with communities on an economic program to get better balance if they are loaded down with one particular type of industry, and it is heavily hit with unemployment, and that sort of thing?

Representative BOLLING. That is right.

Mr. GOODWIN. We are doing something along that line and working with the State employment security agencies.

We also carry out certain responsibilities for ODM, and the Administration——

Representative BOLLING. Could you pin that down a little tighter so I would know how much is being done and how many people were involved and how aggressively that particular responsibility is being carried out? How many people are involved in this? How many people are specifically charged with performing this function?

Mr. GOODWIN. It is not very many that are specifically charged with performing this function. It is an outgrowth of some of our other functions and the personnel of a good many people in the Bureau would make some contributions to it. But it would not be a full-time proposition.

Representative BOLLING. Who is the coordinator; who has got the specific job, have you got one?

Mr. GOODWIN. Yes, we have one in Mr. Levine's shop.

Representative BOLLING. Who works full time on this, one person?

Mr. GOODWIN. No, he does not.

Representative BOLLING. One person works part time on this aspect of it?

Mr. GOODWIN. Yes. He has some help part-time, too.

Representative BOLLING. Well, the thought occurs to me that this is an area in which, regardless of how quickly we come out of this economic situation, this is an area in which more effort could be put. I presume the reason for not putting more effort into it is the familiar questions I have been asking on appropriations.

Mr. GOODWIN. Yes, that is part of it, Mr. Congressman, but also, after working in this field for several years, we have come to the conclusion that the focal point for activity of this kind should be in the local community, that it is a mistake for the Federal Government, at least the part of the Federal Government's program in which we deal, to establish the focal point here in Washington.

Representative BOLLING. I have no such suggestion in mind, but it seems to me clear that while the focal point must be in the community and the action taken must be in the community, it is pretty obvious that in a country as substantial as this one, that there must be the possibility of furnishing information and advice and previous experience on a coordinated basis that might be extremely valuable to the focal point.

Mr. GOODWIN. I think we have some material that we have published and used with the employment security agencies in this field, and we would like to make it available to you.

There is one more comment I would like to make: Another conclusion that we have come to in working in this general area is that this type of program does ont affect on basic economic factors in the economy as a whole. What I have been talking about is trying to do something to help the community that has been having difficulty in the last 3 or 4 years, even with the economic situation of the country as a whole at a very high level, and we have, as you know, a number of areas that have continued to be depressed continuously with high unemployment levels. That is the type of problem that I have been addressing myself to.

We have had ODM's policy on placement of contracts to try to help some of those areas.

Representative BOLLING. You are speaking of a policy that was recently reinstated or is that a policy that has continued on?

Mr. GOODWIN. Recently revised, yes.

Representative BOLLING. Recently revised?

Mr. GOODWIN. Yes, sir. We have worked with local communities to try to raise money to attract industries into the local areas, that type of thing.

I merely wanted to make it clear that even if you are successful in that kind of an effort, it merely spreads things more equitably among the different communities. It is not attempting to deal with a basic economic problem.

Representative BOLLING. It has a mitigating rather than a fundamental impact?

Mr. GOODWIN. That is right.

Representative BOLLING. I would very much like to see that material if you would send it to me. It would appear that your part-time person with part-time help would not get a great deal done.

Mr. GOODWIN. Well, that person's efforts are multiplied by the many people in the State agencies who are working on the problem.

Representative BOLLING. Thank you; that is all, Mr. Chairman.

(The material requested by Representative Bolling follows. The publications referred to in the letter are on file with the joint committee.)

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF EMPLOYMENT SECURITY,
Washington 25, D. C., February 11, 1954.

Hon. JESSE P. WOLCOTT,
Chairman, Joint Committee on the Economic Report,
Washington, D. C.

DEAR CONGRESSMAN WOLCOTT: In the course of my testimony of last week before your committee Congressman Bolling asked me what additional staff would be needed to provide monthly reporting of area labor market developments.

Currently, this Bureau receives reports every 2 months from 149 major labor market areas throughout the Nation. These reports are prepared locally, drawing upon labor-market data available in the local public employment offices, including information on current employment and unemployment levels and employer hiring plans. The reports are submitted to Washington between the 15th and 25th of the even-numbered months covering developments in the 2 preceding months and the outlook for the next 2 and 4 months.

The procedure also provides that a State agency, on its own initiative, should prepare a report at any time if it is believed that the conditions in an area are such as to warrant a possible classification to group IV labor surplus area. Such reports may cover areas regularly studied but for which a regular new report is not due for some weeks, or smaller areas which may qualify for group IV classification. In addition, the Bureau receives on a weekly basis from each State a telegraphic report on the number of claimants in the State for unemployment compensation.

When the area reports, together with other information, indicate that substantial employment changes might have taken place in an area even though the State agency has not prepared a special report concerning the area, the Bureau initiates a telegraphic check just prior to the formal classification of the area. This check includes the telegraphic submission from the State of the most recent employment and unemployment changes or other pertinent comments, plus the State's concurrence or suggestions in the classification tentatively assigned to the area. Through this device the latest information available to the State agency is reflected in the classifications assigned to the cities of our country.

While the system I have just described assures consideration of the latest information available on areas whose classifications are in doubt, it obviously is no substitute for complete monthly reports concerning these cities. Therefore, Congressman Bolling's question is very pertinent. The only problem in securing monthly reports concerning the 149 areas is that of budget and staff. During World War II we secured reports on a monthly basis and classified 350 of the largest industrial areas in the country. For a short period when procurement was sharply building up, we even had 450 areas classified. Thus, as you can see, we have had considerable experience with the program on a number of different bases. The best estimates we can make readily indicate that monthly classification of the 149 areas would require an estimated additional staff of approximately 90 men in the 51 State jurisdictions. Naturally, this does not mean the hiring of 90 untrained men who would have to be trained in labor-market analysis. It means the provision of some 90 man-years in addition to the staff now available. The 90 man-years of service would cost approximately $350,000. To analyze and classify these additional monthly reports in Washington, the Bureau would need to expand its current staff of 12 persons by 6 professional and 4 clerical persons, for a total of 10. This addition would cost approximately $45,000.

Congressman Bolling has also asked for descriptive material concerning the Bureau's community employment program. For the information of the committee, there is enclosed a copy of (1) December issue of the Employment Security Review—Community Employment Development—the Grass Roots Approach, and (2) Training Program No. 20, the local office manager and the community employment program, which will be helpful in pointing up the objectives of this program. It should be noted that the program urges State employment security agencies to encourage communities to help themselves to stimulate the economy for the prevention and alleviation of unemployment.

In approximately 95 percent of the State employment security laws, there is a provision which requires that appropriate steps be taken to reduce and prevent unemployment and to promote the reemployment of unemployed workers. This program is for the purpose of implementing these provisions of those laws. Specifically, the program urges the development of progress to promote united community action to stimulate the local economy, to achieve (1) maximum utilization of the community's labor force in regular employment, and (2) full development of the community's natural and industrial resources. The basic principles of the program are to encourage a community which has recurring fluctuations in employment, heavy unemployment, and particularly those suffering from chronic economic ills to take action to resolve its own employment problems.

The Bureau, through State agencies, encourages the development of such programs to assist the local industries to expand and to attract new industries to the area. It urges communities to take action necessary to determine economic advantages and deficiencies of the area. Facts to be obtained include data on existing plant facilities, occupational characteristics of the employed and unemployed and other pertinent information which will reflect the area's economic potential. An appraisal of these data to be used as a basis for the development of operating programs designed to: (1) Develop to the fullest available resources, (2) correct community deficiencies in order to diversify the economic base to provide a wider range of job opportunities and a greater stability of employment, and (3) attract the type of industry which would be most likely to prosper from such advantages. The Bureau keeps State agencies informed on the kinds of community programs which have been successful in creating additional job opportunities. It also maintains liaison with national management associations, labor organizations, appropriate departments of the Federal Government and other groups to obtain their cooperation in the achievement of community employment program objectives.

This program is the Department of Labor's major vehicle for carrying out its responsibilities in connection with the administration's expressed policies for maintaining high levels of employment.

Thank you very much for taking an interest in these programs of the Bureau.

Sincerely yours,

ROBERT C. GOODWIN, *Director.*

Chairman WOLCOTT. Mr. Talle?

Mr. TALLE. No questions.

Chairman WOLCOTT. Mr. Eckler, Mr. Clague, and Mr. Goodwin, we are very grateful to you for this very valuable contribution that you have made to this study. We are happy that you have come down, and we assume that during the continuance of this study we may feel at liberty to call upon you for new supplemental information that we may require.

Thank you very much.

The meeting Monday will be in room 318 of the Senate Office Building, and I believe that is the Senate caucus room, at 10 o'clock, at which time we will take up the subect of a panel discussion on the private investment outlook and implications for Federal economic policy.

Without objection, the committee will stand in recess until Monday morning at 10 o'clock, to reconvene in room 318 of the Senate Office Building.

(Whereupon at 12:30 o'clock p. m., Friday, February 5, 1954, the joint committee recessed until 10 o'clock a. m., Monday, February 8, 1954, in room 318 Senate Office Building.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 8, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10: 10 a. m., in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman), Senator Carlson, Representatives Talle and Patman.

Also present: Grover W. Ensley, staff director, and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We have a panel discussion this morning on the private investment outlook and the implications for Federal economic policy.

During the past week we have heard the testimony of the administration officials, and they have spelled out the President's economic program, the current economic situation, and the outlook for the future.

For the next 2 weeks, the committee will listen to panels of technicians discussing various aspects of the program as contained in the economic report and the recommndations.

The panel this morning will discuss the private investment outlook.

We have asked each participant to make a brief opening statement summarizing his views. It is still my hope that the panelists may be able to proceed with their statements without interruption expecting, of course, that we will ask some questions following that. We sit as ex officio members of the panel and, of course, insist upon getting into the discussion.

We have a distinguished panel this morning representing about all segments of business, and labor economists, especially. We also have the top technician in this field from the Department of Commerce.

I want to state now that the panelists are here on their own, and they do not necessarily represent the people with whom they are connected.

We have as the first panelist, Mr. Dexter M. Keezer, director of the department of economics of McGraw-Hill Publishing Co. He has in recent years conducted an excellent survey of business investment plans. Mr. Keezer, we are very glad to have you, and you may proceed with your statement which I notice is prepared. You may proceed.

STATEMENT OF DEXTER M. KEEZER, VICE PRESIDENT AND DIRECTOR OF THE DEPARTMENT OF ECONOMICS, McGRAW-HILL PUBLISHING CO., INC.

Mr. KEEZER. Mr. Chairman, I have a prepared statement, but I shall simply skip through it and summarize it, and I shall stay within my 10 minutes.

My qualifications to speak to the committee on this subject are derived primarily from the fact that my department at McGraw-Hill makes periodic surveys of business plans for investment in new plant and equipment and has, I believe, made the most nearly current survey of the investment plans of manufacturing companies for the calendar year 1954.

That survey is now some months out of date, but I have endeavored to make it more nearly current by some spot checking of present plans for capital investment.

I have also had access to a number of partial surveys and have had access, in particular, to the results of the regular Commerce-SEC quarterly survey of plans for capital outlays by American business in the first quarter of this year.

With these results and the other reports I have mentioned, it is possible, I believe, to patch together a tolerably good picture of where business plans for the purchase of new industrial plant and equipment in 1954 now stand.

As matters now stand, American business, as a whole, is planning to spend more for new plant and equipment in the first quarter in 1954 than in any first quarter on record.

The planned annual rate of expenditure, about $28 billion, was exceeded slightly in the last two quarters of 1953, but there has never been a higher first quarter since the Commerce Department and the SEC started to collect figures in 1946.

For the balance of the year, American business is now planning to continue the purchase of capital equipment at a very high rate, but at a rate which will decline moderately as the year advances.

If capital investment were carried out for the balance of the year, as presently planned, the expenditure would be $1 billion to $1.5 billion less than the all-time record-breaking total of $27.8 billion attained in 1953. That would be higher than in 1952 or in any other year except 1953.

Now, I will skip the detailed figures and turn to the totals for the year.

It comes out that business capital expenditures, for which I get a total for 1953 in the way I have indicated, were $27.85 billion. For this year, as now planned, it is $26.5 billion. I will not go into the detailed figures unless you care to have me. The total is about 5 percent less than it was in the all-time record-breaking year of 1953.

Now, so far as I know the only breakdown of plans for this year between the various branches of manufacturing which is now available comes from the survey which we made last fall, and on page 5 I presented you that breakdown. You will see the largest decline this year, as compared to last year, comes in steel, the largest increase comes in automobiles, and so on down the line. I shall not detain you with the figures.

Here are some general statements which can be made about the plans at present.

Representative PATMAN. Are machine tools included in either one of these?

Mr. KEEZER. In machinery.

Representative PATMAN. That is 10 percent less.

Mr. KEEZER. Yes.

The decline in manufacturers' investment plans is related primarily to the completion of defense expansion programs. We have found no evidence of extensive cutbacks in anticipation of a business recession.

Representative PATMAN. Do you also have a breakdown on machine tools as distinguished from machinery in general?

Mr. KEEZER. I do not.

The second generalization that can be made is that large companies, with long-range modernization and expansion programs provide the main support for capital spending. Smaller companies continue to cut back on investment in plant and equipment, as they did in 1953. I have amplified that in my prepared statement, but I shall not here.

Ability to produce new products appears to be the principal driving force behind the plans of manufacturing companies to maintain a high level of capital investment in 1954.

Now, the question arises at once as to how reliable are these surveys of business plans for investment in new plant and equipment as a forecast of what will actually happen.

The correct answer, as I see it, is that we do not yet know. On the record, during the period since 1948 when we have been making these surveys, they look like quite a valuable device for forecasting capital investment by business.

In every year, except 1950 actual business investment in new plant and equipment has come within 6 percent of the plans indicated by the McGraw-Hill survey. In a couple of years, which it appears 1953 will prove to be one when the final returns are in, actual expenditures have been within 1 percent of what the survey indicated they would be.

In 1950 the Korean war, of course, led to a large increase in investment. We do not conclude from this experience, however, that we have a sure-fire forecasting instrument.

We recognize that during the years when the surveys have been conducted, we have had an almost continuous boom, and there has been especially heavy demand for capital goods.

These surveys, none of them have been through the test of a severe recession or depression.

It is also true that the investment plans of individual industries have sometimes missed the mark indicated by the survey considerably further than the survey, as a whole. We do not know whether these mistakes are going to remain stabilized or not.

Until the surveys are checked by a lot more experience, we are reserving judgment on their forecasting value. In the meantime we claim nothing for them in that line. Instead, we emphasize the proposition that they are reports of potential capital investment rather than a promise of what is actually going to happen.

It is my personal impression that these surveys have substantially more forecasting value than a similar survey would have had 10 or 15 years ago. This impression is based largely on the great increase in long-range planning of capital investment by business. I have amplified that in my statement, but I will not here.

There is another element which seems to me to give strength to the plans this year, and that is the strong financial position of business. I shall not expand on that.

It seems to me hard to envisage a business decline so severe there that between their depreciation allowances, their retained earnings and their borrowing capacity, manufacturing companies, as a whole, would lack the funds needed to carry out their investment plans for 1954.

The reference to manufacturing companies as a whole, however, obscures a weakness that I have already mentioned. This is that smaller companies are not keeping pace with the large companies. One reason seems to be that their profits have not been as good as those of the large companies, and also they do not seem to have shared as fully in the defense program and hence the accelerated depreciation arrangements used to encourage investment in defense facilities.

It is also possible, although it does not seem to have taken place thus far—and I have made a considerable check in anticipation of this discussion—that there will be some downward revision of investment plans in the light of sales prospects which have become less glowing since the plans were made.

It is also well within the realm of possibility for the actual investment this year to exceed that which has been planned. I think this possibility is strengthened by the clearly established tendency of plans for investment over a period of a year or more ahead to overlook a considerable amount of investment which, it subsequently develops, is badly needed. How these and more cross-currents will finally work out only time will tell.

In the meantime, I am sure it can be safely asserted that an important element of strength in the general economic outlook for the year 1954 is provided by the fact that business is planning a level of investment almost as high that for 1953, when all records were broken, and has in sight the financial resources to make the investment feasible. However, the plans about which we now know indicate that the trend of investment through the year will be slightly downward, and that for smaller companies this will be a sustained trend.

In our investment surveys we have endeavored to go ahead for a series of years, and we have gathered material on plans some years ahead. I think my time is about exhausted so I will not go into this phase of the subject at this time.

I would like particularly to call attention to the table on page 10 which, I think, provides about the best figures on American manufacturing capacity that are available. If subsequently there is such occasion to discuss plans beyond this current year, I have a bit of material here to do it.

In the meantime, that concludes, Mr. Chairman, my remarks on the outlook of capital investment by business.

Chairman WOLCOTT. Well, thank you, Mr. Keezer.

(The prepared statement submitted by Mr. Keezer reads in full as follows:)

STATEMENT BY DEXTER M. KEEZER, VICE PRESIDENT AND DIRECTOR OF THE DEPARTMENT OF ECONOMICS, MCGRAW-HILL PUBLISHING CO., INC., NEW YORK CITY, ON THE OUTLOOK FOR PRIVATE INVESTMENT IN INDUSTRIAL PLANT AND EQUIPMENT

My qualifications to speak to the committee on this subject are derived primarily from the fact that my department at McGraw-Hill makes periodic surveys of business plans for investment in new plant and equipment, and has, I believe, made the most nearly current survey of the investment plans of manufacturing companies for the calendar year 1954. That survey is now some months out of date but I have endeavored to make it more nearly current by some spot checking of present plans for capital investment. I have also had access to a quite recent survey of plans for investment in 1954 by electric power companies which was made by the McGraw-Hill magazine Electrical World, and a similar survey of 1954 investment plans in the steel industry which was made by the American Iron and Steel Institute.

I understand that it will be about another month before the results of the comprehensive survey of business plans for investment during the entire year 1954, which is conducted jointly by the Commerce Department and the Securities and Exchange Commission, are available. In the meantime, we have available the results of the regular Commerce-SEC quarterly survey of plans for capital outlays by American business in the first quarter of this year. With these results and the other reports I have mentioned it is possible, I believe, to patch together a tolerably good picture of where business plans for the purchase of new industrial plant and equipment in 1954 now stand. I find that my assignment also calls for me to cover plans for capital investment by commercial enterprises. I am less well equipped to deal with this aspect of the subject because our McGraw-Hill surveys do not cover commercial establishments, as do the Commerce-SEC surveys.

As matters stand right now, American business as a whole is planning to spend more for new plant and equipment in the first quarter of 1954 than in any first quarter on record. (In American business as a whole I include manufacturing, mining, transportation, public utilities and commercial establishments.) The planned annual rate of expenditure—about $28 billion—was exceeded slightly in the last two quarters of 1953, but there has never been a higher first quarter since the Commerce Department and the SEC started to collect the figures—in 1946.

For the balance of the year American business is now planning to continue the purchase of capital equipment at a very high rate, but a rate which will decline moderately as the year advances. If capital investment were carried out for the balance of the year as at present planned, the expenditure would be from $1 billion to $1.5 billion less than the all-time record-breaking total of $27.8 billion attained in 1953. That would be higher than in 1952 or any other year except 1953. I shall discuss some of the possibilities that present plans will be expanded or contracted after explaining briefly how this figure was arrived at.

Our McGraw-Hill survey as made late last fall and considerably rechecked since, indicates that manufacturing companies plan to spend about 8 percent less for plant and equipment in 1954 than they spent in 1953.

In some of the most important sectors of manufacturing, we have rather complete evidence that the plans reported last fall are still valid. For example, the survey published in January by the American Iron & Steel Institute indicates virtually the same level of expenditures for 1954 as did our earlier survey. The plans of the automobile industry, as shown in our survey, have since been confirmed by the public announcements of leading manufacturers. We have been able to recheck, through press announcements or personal contact a considerable number of the large firms in the oil, chemical and machinery industries. They report little or no change since our last survey. So taking the survey figure of 8 percent decline as a reasonable one, we arrive at 1954 capital expenditures in manufacturing of $11.4 billion, as opposed to $12.4 billion in 1953.

Our information on mining industries is less complete, but our survey last fall indicated little change from 1953. For electric utilities, Electrical World's estimate of last October has now been validated by a survey covering 96 percent of the private electric power industry, in terms of capacity. This survey, made in December 1953, shows 1954 expenditures planned at about the same level as in 1953. The latest data available from the American Gas Association is still based on a survey made several months ago. It indicates a slight decline in 1954 expenditures. On this basis, total utility expenditures would be $4.3 billion in 1954.

We did not survey transportation companies in October. But what current checking we have been able to do suggests that this group—which includes railroads, airlines and trucking—will spend about 10 percent less, or $2.45 billion, in 1954.

As I have indicated, expenditures in the "commercial and miscellaneous" category must be based chiefly on data collected by others. We have made no comprehensive survey of this group. However, the McGraw-Hill magazine Business Week did find by checking in November that 8 cities had more than 1 million square feet of rental office space under construction, compared with 3 cities having that much office construction underway a year before. These figures do not include construction of loft space or owner-occupied office buildings, both of which were also reported on the increase. Contract awards for large commercial construction projects, as reported by the McGraw-Hill magazine Engineering News-Record have been running more than 20 percent above a year ago in recent months.

Considering these facts, and other data collected by Government and private agencies, it appears that a substantial increase in total expenditures in the commercial category is planned for 1954. But since I have little direct knowledge in this field, I have taken the cautious view that the increase will be quite small—from $7.35 billion in 1953 to $7½ billion this year.

Here is a table which summarizes the plans and other indications of business capital investment in 1954 which I have mentioned:

Business capital expenditures

[Billions of dollars]

	Estimated 1953 [1]	Planned 1954 [2]
Manufacturing and mining	$13.30	$12 25
Electric and gas utilities	4 50	4.30
Transportation	2.70	2.45
Commercial and miscellaneous	7 35	7.50
Total	27.85	26.50

[1] Latest quarterly survey, Department of Commerce and Securities and Exchange Commission.
[2] McGraw-Hill, Electrical World and American Gas Association surveys.

Commercial and miscellaneous estimated.

If the table correctly portrays the situation—and I am confident it comes pretty close to it—business as a whole is planning to invest only about 5 percent less in new plant and equipment in 1954 than it invested in the all-time record-breaking year 1953. As the table indictates, most of the decline is concentrated in manufacturing.

The only breakdown of plans for 1954 between the various branches of manufacturing which is now available comes from the survey which we made last fall. Here are the detailed figures for manufacturing.

Expenditures for new plant and equipment

[Millions of dollars]

Industry	Estimated, 1953	Plans, 1954	Increase or decrease
			Percent
Steel	$1,410	$1,070	−24
Automobiles	959	1,105	+15
Machinery	898	804	−10
Electrical machinery	438	484	+10
Transportation equipment	210	191	−9
Food	865	865	
Petroleum	2,778	2,709	−2
Chemicals	1,650	1,413	−14
Textiles	295	259	−12
Other manufacturing [1]	2,920	2,549	−13
Total manufacturing	12,423	11,449	−8

[1] Includes nonferrous metals (refining and fabricating), building materials, containers, paper, rubber furniture, and apparel.

Source: 1953, Department of Commerce; 1954, McGraw-Hill survey.

The decline in manufacturers' investment plans is related primarily to the completion of defense expansion programs. We have found no evidence of extensive cutbacks in anticipation of business recession.

Large companies, with long-range modernization and expansion programs, provide the main support for capital spending. Smaller companies continue to cut back on investment in plant and equipment, as they did in 1953. Of the total of some hundereds of manufacturing companies whose 1954 investment plans we surveyed last fall, only 40 percent were planning to maintain or raise the level of their expeditures this year. But the investment planned by this minority of companies bulked large enough to keep the total expediture planned close to the 1953 level.

Ability to produce new products appears to be the principal driving force behind the plans of manufacturing companies to maintain a high level of capital investment in 1954. Large companies particularly are planning to diversify their manufacturing facilities, either by bringing out new items, or by crossing over into other industrial fields with attractive growth prospects.

The question arises at once, "How reliable are these surveys of business plans for investment in new plant and equipment as a forecast of what will actually happen?" The correct answer, as I see it, is that we do not yet know. On the record, during the period since 1948 that we have been making these surveys they look like quite a valuable device for forecasting capital investment by business.

In every year except 1950 actual business investment in new plant and equipment has come within 6 percent of the plans indicated by the McGraw-Hill survey. And in a couple of years, of which it appears 1953 will prove to be one, actual expenditures have been within 1 percent of what the survey indicated they would be. In 1950 the Korean war started a new rush of capital investment which made actual expenditures that year 20 percent higher than the survey at the beginning of the year indicated they would be.

We do not conclude from this experience, however, that we have a sure-fire forecasting instrument. We recognize that:

The years during which the surveys have been conducted have, with one brief interlude, been boom years and years when there has been specially heavy demand for capital goods.

The survey of plans have never been through the test of a severe recession or depression.

The investment performance of individual industries has sometimes missed the mark indicated by the survey of plans considerably further than the investment performance for industry as a whole. We haven't had enough experience to know whether we can confidentially expect the errors in individual industries to cancel out as well as they have thus far.

Until the surveys are tested by a lot more experience we are reserving judgment on their forecasting value. In the meantime, we claim nothing for them in that line. Instead we heavily emphasize the proposition that our survey reports potential capital investment and is no promise of what is actually going to happen.

It is my personal impression that our surveys have substantially more forecasting value than a similar survey would have had 10 or 15 years ago. This impression is based largely on the great increase in long-range planning of capital investment by business. I am sure that such planning increases the stability and hence the forecasting value of the plans involved. For several years we have asked the companies which cooperate in our surveys how far ahead they plan their capital expenditures. Last year the survey showed thta nearly two-thirds of the respondent companies plan their capital investment at least 2 years ahead and 81 percent do some forward planning. This 81 percent was an increase from 65 percent a year earlier. The companies cooperating in our surveys are, for the most part, large companies which, I am sure, plan their expenditures further ahead than most small companies. However, they include companies which typically account for almost two-thirds of business investment in new plant and equipment. Hence their experience indicates that there is a quite general extension of longer range planning of capital investment.

There are, I believe, other substantial reasons for anticipating that actual capital investment by business in 1954 will again come pretty close to what our surveys show to be planned. Our reason is that there is still some backlog of orders for capital equipment (as opposed to new orders) although it has been declining.

Another element which gives strength to the plans for capital investment is the strong financial position of business. In depreciation allowances alone we estimate that maunfacturing companies will have about $6.8 billion in 1954, or 60 percent of the $11.4 billion they plan to invest in new plant and equipment. In this connection we discovered through the survey of investment plans we made a year ago that it is the policy of 85 percent of the manufacturing companies to spend all of the funds they accumulate through depreciation allowances. This is a fact which would seem to add an important element of strength to depreciation allowances as a force to sustain capital investment.

It is hard to envisage a business decline so severe that between their depreciation allowances, their retained earnings, and their borrowing capacity manufacturing companies, as a whole, would lack the funds needed to carry out their investment plans for 1954.

The reference to manufacturing companies as a whole, however, obscures a weakness in the capital investment outlook to which I have already made reference. It is that the smaller companies are not keeping pace with the larger companies. One reason seems to be that their profits have not been as good as those of the large companies. Also, they don't seem to have shared as fully in the defense program and hence the accelerated depreciation arrangements used to encourage investment in defense facilities.

Although it has not taken place thus far, it is also possible, of course, that there will be some downward revision of investment plans in the light of sales prospects which have become less glowing since the plans were made. There was some downward revision in the 1949 business recession, but it did not prevent actual investment in that year from equaling that which had been planned because investment in the first half of the year held up so well. It is entirely within the realm of possibility for a similar situation to develop this year.

It is also within the realm of possibility for the actual investment this year to exceed that which has been planned. This possibility is strengthened by the clearly established tendency of plans for investment over a period of a year or more ahead to overlook a considerable amount of investment which it subsequently develops is needed. How these and more crosscurrents will finally work out only time can tell.

In the meantime, I am sure that it can be safely asserted that an important element of strength in the general economic outlook for the year 1954 is provided by the fact that business is planning a level of investment almost as high as that for 1953, when all records were broken, and has in sight the financial resources to make the investment feasible. The plans, however, indicate that the trend of investment through the year will be downward, and that for smaller companies this will be a sustained trend.

In our surveys of capital investment we have endeavored, with increasing success, to get some idea of the dimensions of capital investment plans over a series of years ahead. A year ago we surveyed plans for the years 1953 through 1956, and this year will carry the survey a year further, through 1957.

As would be expected, the plans for investment fall off as we go further into the years ahead. But what is remarkable is that so much investment is planned for the coming years. The survey we made early in 1953 showed that industry as a whole (exclusive of commercial establishments) had preliminary plans to invest almost 80 percent as much in 1956 as it planned to invest in 1953.

In making plans for such large investment over the years ahead, one of the things industry is hoping to do is to catch up with a process of modernization which has lagged in recent years. We ask the companies which cooperate in our surveys how much of their capital investment will be for modernization and how much for expansion of facilities. A study of the returns indicates that plans for modernization have been skimped to accommodate great expansion, such as that called for by the Korean crisis.

How much needs to be done to modernize our industrial equipment is underlined by the results of an inventory of our stock of machine tools and metal-forming equipment which was recently completed by American Machinist, a McGraw-Hill magazine. This inventory disclosed that more than half (56 percent) of this equipment, which is our most basic industrial equipment, is overage, and that the situation has become worse since the start of the Korean war. To put our industrial establishment as a whole in first-class condition we estimate very roughly that somewhere in the neighborhood of $125 billion of investment would be required. This is 25 percent of the $500 billion estimated by the Machinery and Allied Products Institute as the present value of all industrial plant and equipment now in place.

Our surveys indicate that since 1939 manufacturing capacity in the United States has been somewhat more than doubled. The detailed figures which, so far as I know, are the best figures extant on industrial capacity follow:

Index of Industrial Capacity

[1939=100]

						Planned		Percent increase		
	1946	1948	1950	1951	1952	1953	1956	1951-52	1952-53	1953-56
Steel	112	115	126	130	140	146	147	8	4	1
Machinery	154	200	236	271	304	331	371	12	9	12
Electrical machinery	175	280	325	354	400	452	560	13	13	24
Automobiles	104	130	153	170	196	210	235	15	7	12
Transport equipment [1]	243	250	288	328	423	503	553	29	19	10
Food	117	135	143	152	157	163	178	3	4	9
Chemicals	172	250	293	322	357	393	479	11	10	22
Petroleum refining	123	160	178	185	194	204	218	5	5	7
Other manufacturing	109	120	133	141	148	155	166	5	5	7
All manufacturing	131	156	175	187	204	218	238	9	7	9

[1] Including aircraft.

This table suggests that there will be some slowing up in the growth of industrial capacity in the years immediately ahead. If, however, it were possible to realize anywhere near the potential of investment for modernization, the process would fill any gap left by less investment for expansion. Thus it would be possible to sustain the high level of investment which is regarded by many as a key ingredient of a high level of general prosperity.

Whether investment for modernization will come to have the same attractiveness as investment for expansion remains to be determined. There are many who are inclined to doubt it. What happens here, of course, will depend in large measure on decisions in the realm of economic policy for which my statement is designed to provide some factual framework.

Chairman WOLCOTT. We next have Mr. Walter Hoadley, Jr., of the Armstrong Cork Co., Lancaster, Pa., who will discuss residential construction.

STATEMENT OF WALTER E. HOADLEY, JR., ECONOMIST, ARMSTRONG CORK CO., LANCASTER, PA.

Mr. HOADLEY. Thank you, Mr. Chairman.

The view expressed in the Economic Report of the President that "Housing construction * * * may be expected to continue at a level close to that in 1953" (p. 63) appears sound. The strong support which residential construction seems likely to give to the national economy over the next 12–18 months, however, will result not alone from new home building—which probably will fall slightly under the 1953 total—but particularly from the rapidly expanding volume of home "fix-up" (i. e., repair, modernization, and maintenance) work.

INADEQUACIES OF CONSTRUCTION STATISTICS

Any effort to appraise construction trends and prospects obviously involves the many uncertainties generally inherent in economic measurement and forcasting. In the case of construction, the situation is aggravated by some serious deficiencies in current Federal statistics purporting to show activity levels and changes in this major investment sector of the American economy. Unfortunately as construction activity has grown in size and importance to the Nation, in many respects our knowledge about it has lessened.

Because the first session of the 83d Congress wisely appropriated funds for a badly needed revision in the widely quoted measure of nonfarm "housing starts" pepared by the United States Bureau of Labor Statistics, a more reliable measure of new home building activity reportedly will become available by mid-1954. In the important "fix-up" area, virtually no statistically defensible information is on hand or in sight. Only the crudest estimates of current changes in the national housing inventory and in vacancies in old and new dwellings are available.

These statistical deficiencies exist not because of a lack of competence in Government statistical agencies, but probably because of a lack of general concern in recent boom years for sound data upon which to base policy decisions. So long as the economy and construction were moving upward, perhaps the dangers of inadequate information were at a minimum. But with visible signs of some general adjustment in the economy as well as widespread impending changes in building activity, it would seem unwise from the standpoint of sound public policy to allow present statistical inadequacies to persist.

HOME BUILDING—A GROWTH INDUSTRY

Building unquestionably is one of the country's outstanding growth industries and definitely can be expected to "serve as a sustaining force in the entire economy," as suggested in the Economic Report (p. 85). The upsurge in population and family formations in recent years has intensified the housing needs of the country. At the end of the present decade the home-building industry will begin to face the tremendous task of providing housing for the record numbers of children born in the early 1940's who will be forming families of their own. Housing requirements also will continue to be high over the years ahead because of further population movements from the cities to the suburbs as well as from one region of the Nation to another. More homes will be needed to replace those which are torn down in slum-clearance programs, or otherwise removed from the housing market.

Highly important in judging the growth potentialities of housing is the increasing tendency among families to consider better homes as an integral part of rising American living standards. This is shown in the record proportions of family expenditures now going for housing and all the associated furnishings and appliances which have become an essential part of modern American home living. The level of family income, furthermore, has now reached the point where home ownership is within the reach of the overwhelming majority of American families. In fact, home ownership stands at a new high with strong indications of moving up still further—forming another powerful bulwark to our system of competitive private enterprise.

The outlook is for the rate of new home building to rise by the middle 1960's to 1,500,000—2 million units annually, a sharp gain over even the most recent peak postwar boom years in residential construction.

NEW HOMEBUILDING PROSPECTS

To contend that home building now qualifies as a growth industry is not to imply that moderate year-to-year fluctuations in numbers of new homes will be absent. On the contrary, the industry and the national economy which it serves are far too dynamic and complex to expect an end to variations in building activity. Even if rigid stability were achieved, it would clearly dampen the longer range outlook and impede individual initiative. Strong growth prospects, however, unquestionably will help minimize short-term fluctuations. Hence, the Economic Report states correctly that "the housing industry has become less vulnerable to recessionary influences and is less likely to contribute to economic instability" (p. 63).

For roughly 3 years there has been a gradual down trend in new residential construction from an officially recorded peak in housing starts of about 1,400,000 in 1950 to approximately 1,100,000 units last year. More than 8 million new homes built since the end of World War II obviously have improved national housing conditions substantially from the early postwar years of acute shortages. Fewer new families and the current lack of urgency among prospective home purchasers point to a somewhat lower volume of new housing starts, perhaps off 10 percent, during the year ahead.

This declining trend in new home building quite understandingly is attracting attention and causing some concern. In many quarters the view is held that residential construction faces several relatively low years before the eventual upsurge in family formations will provide the economic basis for a still greater housing boom.

Overemphasis upon new home building activity, however, can be very misleading at the present time. For, in my opinion a tremendous opportunity now exists for private initiative to maintain a high and healthy level of total residential construction by combining a historically good, but somewhat reduced, volume of new home building with expanding work in the "fix up" field.

TREMENDOUS HOME "FIX UP" POTENTIAL

The pressing need over the next 3–5 years will be less for entirely new housing units and more for additional living space, in many instances in present homes. The Nation is now entering a period of acute "space squeeze" as record millions of children begin to outgrow their living quarters. Unprecedented postwar increases in second, third, and fourth births per family now pose serious housing problems for most young families living in the predominantly small homes built since the end of World War II.

The answer to the mounting space problem on economic grounds must be found to a considerable degree in improving existing dwelling units, either utilizing unfinished areas already available or by adding a room or two. In addition, there are sizable "fix-up" needs generally among the 35 million homes in this country which are neither very new or so badly dilapidated as to be beyond repair. More than half of today's homes were built before radio, major applicances, television, and automobiles were invented or in common use. Only a start has been made to correct the deterioration caused by rent control.

It is not surprising to find widespread dissatisfaction among the American public with the quality of its present housing. This is shown in both public and private consumer surveys which reveal that fixing-up-the-house now has a very high priority in family budgets across the Nation. Home improvements, moreover, deserve high priority in public policy as well, for no foreseeable slum clearance program can hope to succeed unless efforts are made promptly to keep more dwellings from falling into the slum class.

This "fix-up" market is commonly overlooked or ignored because it comprises a multitude of small projects which individually attract little attention. Actually no one know with any reasonable degree of accuracy just how large this volume of "fix-up" work is at the present time. There are many fragmentary but nonetheless convincing studies which suggest that the flow of money and materials into "fix-up" work is rapidly approaching the flow into entirely new home-building. In short, home repairs and modernization already are contributing billions of dollars of business to the national economy, and hold great promise in offsetting declines which may develop elsewhere in the building industry. Consequently, public policies affecting the home-building industry should now give essentially the same attention to "fix-up" work as new construction.

THE CRITICAL ROLE OF FINANCE

The Economic Report quite properly stresses the critical role of finance in the housing field, and the "responsibility of Government to provide an environment in which private financial institutions can perform" (p. 83) their functions constructively. The home-building industry has benefitted greatly in recent years because of the mortgage insurance or guaranty activities of the Federal Housing Administration and the Veterans' Administration, but it must be recognized that efforts of the Federal Government to help stabilize the national economy by periodic and fairly abrupt policy changes to curtail or stimulate home-building have had highly disrupting influences upon the industry. To the fullest extent possible, public policy decisions should now be designed to encourage the longer range market needs and potentialities of new and "fix-up" home building rather than to weaken forward planning by frequent pronounced shifts affecting the environment within which the industry endeavors to operate. In finance, this means keeping mortgage rates competitive with returns on other alternative investments.

Reducing the bottlenecks to financing "fix-up" projects looms as a major task in the months ahead. Homeowners who have "fix-up" work in mind commonly have partly amortized mortgages and cannot hope to finance major home improvements entirely on a short-term credit basis. What will be required is general adoption of a sound method of adding to present partially amortized mortgages along lines of the "open-end" or "add-on" mortgage principle, not currently available under FHA regulations. If families are forced to finance future major home improvements on a short-term consumer basis, they will be unable to buy as many automobiles, major appliances, and other consumer durable goods, with adverse repercussions upon the entire economy.

CONCLUDING OBSERVATIONS

The most difficult task which private and public authorities in the home-building field now face is to keep their perspective toward industry trends and developments. Statistical inadequacies and some possible overemphasis upon new as opposed to "fix-up" construction could prompt hasty and unwarranted actions. The market potential for total residential construction including repair and modernization work seems entirely adequate to sustain the overall home-building industry at a high level. Private financing is widely held to be adequate to meet mortgage needs. All interested groups—labor, contractor, manufacturer, distributor, and Government—are becoming increasingly active in efforts to keep home building healthy and growing. As a result, the outlook continues to be encouraging.

Thank you.

Chairman WOLCOTT. Thank you very much, Mr. Hoadley.

We are very sorry to learn of the illness of Mr. Edwin B. George, but we have a very worthy substitute for him in Mr. Ralph Watkins, who is the director of research for Dun & Bradstreet.

Mr. Watkins, we will be glad to have you proceed.

STATEMENT OF RALPH J. WATKINS, DIRECTOR OF RESEARCH, DUN & BRADSTREET, INC., PRESENTING THE STATEMENT OF EDWIN B. GEORGE, DIRECTOR, DEPARTMENT OF ECONOMICS, DUN & BRADSTREET, INC.

Mr. WATKINS. I would like to emphasize, Mr. Chairman, that this statement is Mr. George's personal statement. I was called down last night to pinch-hit for him, and, as best I can, present his statement.

I hope there will be time in the discussion period for me to summarize our recent surveys of business expectations, which I know more about personally.

In so closely knit an economy as ours, it is difficult to treat anything save perhaps some types of government expenditures in complete independence of other elements. This, however, is more true of the behavior of inventory investment than of most other capital-investment items. A thorough analysis of the way in which inventories will move in 1954, and for what reasons, would involve detailed examination of general economic prospects.

Evidently a study of inventory investment is impossible within the brief compass available here. I can only hope to outline the major factors in such inventory adjustment that one must take into account, and note what general assessment of their character suggests to me with respect to 1954.

I propose, first, to discuss the ways in which the inventory factor enters into the economic picture and then to indicate some factors now present in the system that tend to permit effectuation of inventory readjustment more quickly and with smaller cumulative effect than before the war; next, to consider briefly the position in which we seem to have stood at the close of last season, and finally, in light of all this discussion, to venture some guesses about 1954.

Let me emphasize again that these are Mr. George's personal guesses and, naturally, the company does not indulge in the luxury of forecasting.

Chairman WOLCOTT. It is understood that the panel are all on their own.

Mr. WATKINS. Right. Nobody could hope to sketch exhaustively the role of the inventory factor in this short statement. For my purpose, however, it will be enough to expose three facets of the matter.

The first is that there is a range outside which the ratio of stocks to sales cannot lie without causing seller dissatisfaction with the ratio, and, hence, efforts to change it.

If the ratio lies above the range, they seek to cut orders and output for purposes of stock reduction, and, conversely, when it lies below the range.

Secondly, in most cases there is a definite, although varying tendency for any change in output to lag behind changes in sales. A shift in sales thus will not lead instantaneouly to a drop in output, but for a while produce offsetting inventory changes. Eventually, this will lead output to contract more sharply in a given period of time than if adjustment had been more immediate.

Thirdly, efforts to change output in order to change inventory level and the stock sales ratio will be frustrated partly by the fact that such changes alter income, spending and, hence, sales in the same direction, although not to the same degree.

Since this is so, successive cuts will be required to store balance unless special measures are taken to reduce changes in sales or adventitious events produce the same result.

All this must sound very complicated but will help to set discussion in better perspective.

Summarizing, departures of the inventory-sales—or expected-inventory-expected-sales—ratio from tolerable values induces sellers to try to alter that ratio, and with some lag these attempts have repercussions that partly defeat the effort, requiring further movements along the same line to turn the trick fully, always apart from external developments that affect sales.

Turning now to the moderating forces referred to earlier, it will doubtless have been seen that in some ways the key to gaging the effects of efforts to change stocks on economic activity lies in the interplay of changes in output and changes in sales.

This, in turn, depends upon the effects of output shifts on incomes and spending therefrom.

Assume some cut in output, if spendable incomes and spending were reduced by almost as much and almost as quickly as the value of output fell, stocks would not drop much, the stock-sales ratio would remain almost as unfavorable as at the outset, and further output cuts would be necessary.

In the specified circumstances, a protracted and major contraction of output might be necessary to eliminate what was at the beginning but a moderately excessive stock-sales ratio.

Now, the economic system has always possessed some properties that eventually would lead to the dampening of the rate of decline in sales, and thus the contraction. At present, however, such factors are on balance much stronger than in prewar days.

In technical language, the system now contains much more "built-in flexibility." Let me illustrate: In 1929, wage earners seldom had to pay any income tax, and did not receive any unemployment insurance when laid off or pay any O. A. S. I. tax. Thus, the fall in wage cost attending an output cut was accompanied by a similar reduction in workers' spendable income.

Nowadays, a significant part of the average worker's income is withheld for income and O. A. S. I. taxes. Hence, output cuts reduce his take home by a good deal less than the accompanying fall in wage costs. Moreover, a substantial percentage of the loss in take home will be replaced by unemployment insurance.

Spendable income and spending thus fall by only a fraction—sometimes less than half—of the fall in wage costs. This provides a prop for sales.

Space precludes comment on other elements of flexibility, but in aggregate the increases that have taken place therein since 1929 have made the total several times as large as in that year. The result is that output costs for purposes of stock reductions can achieve their goal more quickly and with cumulation. This factor is taken into account in the analysis given below.

So much by way of background. Now, let us look at where we stood recently and then consider 1954 prospects. For the former purpose, it is most convenient to start from the findings of a study made last year by Paradiso and Wimsatt, of the Commerce Department. Their investigation indicated that by the close of 1952 a good part of the losses due to the steel strike had been repaired, and that in aggregate business inventories were then roughly in line with sales, taking the average relationship given by 1927 to 1940 experience to represent "balance" after allowance for the fact that the inventory-sales ratio had tended to decline with secular growth in sales. There was, however, a marked difference between stocks of durables and stocks of nondurables in manufacturing industries. The former was significantly larger than normal in relation to sales; the latter, significantly smaller.

If this analysis is correct, one would conclude that stocks stood in balanced position, or at most were but moderately on the low side, at the end of 1952.

Now, in the first half of 1953, substantial growth in stocks took place—the annual rate running about $4.3 billion in the first quarter and rising to $7.1 billion in the second.

Output cuts reduced the rate to $4.3 billion in the third quarter despite a slight fall in sales. Production was lowered further in the fourth quarter. The preliminary official estimate is that stocks were held constant during that period.

My guess is that they fell off by 1 to 2 billion at an annual rate.

Due to the strength of sales, output cuts have thus been translated largely into changes in the rate of inventory investment. The question, however, is whether at the sales rate prevailing in the fourth quarter of 1953—whether this level is satisfactory, or whether at that time the inventory-sales ratio were such as to call for stock reduction.

The historical record will not support unqualified conclusions on this point. If, however, the results cited above are reasonably valid, it would appear that one could expect further inventory disinvestment. This is what one would infer from analysis of the behavior of GNP components during 1953.

In the first quarter of 1953 the value of gross output sold for purposes other than additions to business stocks ran about $359 billion. In the fourth quarter of 1953 the corresponding total was $365 billion. However, outlays for goods seem not to have changed much, if at all, between the two periods.

Against this, at the close of 1953, stocks were around $3.7 billion, or between 4 and 5 percent larger than at the year's opening. The implicit inventory-sales ratio had thus risen significantly.

On the basis of the Paradiso-Wimsatt analysis, it would appear conservative to assume that stocks were $2 billion to $3 billion too high in relation to sales at year-end.

Study of inventory and sales data for manufacturing, retailing, and wholesaling confirms this impression. Analysis based on estimates of December 1953 figures indicates that inventories of concerns in these areas rose by close to $4 billion between December 1952 and December 1953, while sales fell off by, perhaps, $1.5 billion.

Both the rise in stocks and the decline in sales in durables seem to have been marked. There has thus been a further significant change in the position of durables as a whole, and it is within this group that the most vulnerable areas lie.

So much for the general position. As to 1954, it appears that the overall contraction of output has continued in the first quarter, although its relative magnitude is difficult to gage as yet.

On the other hand, it is probable that due to general developments in the system, the buying of goods will be a bit lower, a tendency which the output cuts will reinforce through their effects on income and spending, but for reasons given earlier, only by a moderate fraction of their size.

This will be true unless the ratio of consumer spending on goods to disposable income rise significantly, boosting sales. I would not expect much change in the first and second quarters, since consumers' debt should run off moderately in this period, and since buyers will find themselves spending more for services.

My guess is that output will run enough below sales to reduce stocks at an annual rate of $5 to $6 billion in the first quarter. For the second quarter a drop in stocks at the rate of $3 to $4 billion may well occur.

If, in fact, one could assume sales to hold constant during the half year, this, of course, would pretty much take care of the "excess" burden existing at the year's outset. Due to the drop in sales, however, imbalance would persist.

Further developments will depend, in part, on producers' reactions. I expect the loss in demand due to general developments in the system to be somewhat larger in the second half than in the first half.

It is possible that decumulation would come to a halt sometime in the third quarter and be replaced by positive inventory accumulation in the fourth quarter.

On the other hand, continuance of output reduction at a moderate rate would permit some additional decumulation, say, at the annual rate of $2 billion in the third quarter, and $1 billion in the fourth, and, perhaps, bring us to a point at which sellers are and would be willing to settle at the going stock-sales ratio, even though this would still exceed the indicated 1927–40 average relationshhip, adjusted to give effect to the apparent inverse relation between secular growth in sales and the normal inventory-sale ratio.

If so, a rise in order to support current chew-up rates would take place, tending with some lag to reverse the downward movement. This may very well be the course of events.

To complete the record, let me say that my analysis envisages a relatively steady decline in GNP to a level of about $350 billion anual rate in the fourth quarter of 1954. This compares with a peak of $371 billion in the second quarter of 1953, my estimate of $363 to $364 billion in the fourth quarter of 1953, and a probable first quarter of 1954 rate below $360 billion. In dollar terms, by today we have moved about half way toward the projected fourth quarter figure in GNP.

In closing, one comment: We are dealing with a downswing so gentle that relatively moderate alterations in sales could affect its direction at almost any point in the last two-thirds of 1954. It is arguable that there now exists enough room for a rise in the ratio of consumer spending on goods out of disposable income larger than implicit in my figures to turn the tide in the summer months, although such a turn would not be sharp since it would lead temporarily to further inventory decumulation, this time involuntary and due to the lag in output on sales.

This may be what those forecasting an upturn after mid-spring have in mind. If so, the event might justify their view. The important point, however, is that for practical purposes their forecasts, and mine do not differ much for the year as a whole.

What I exclude is a dip of the magniture and speed approximating that forecast by Mr. Colin Clark, on the one hand, and, on the other hand, the prospect that we shall be invading new high ground, say, $380 billion GNP—annual rate—in the closing months of 1954.

The difference between my figure for 1954, as a whole, and that I estimate for 1953, is a picture of fractional decline. Both words deserve italics, and it is with that judgment that my overall inventory decline is consistent.

Chairman WOLCOTT. Thank you, Mr. Watkins.

We have also with us this morning as a panelist, Mr. Stanley H. Ruttenberg, Director, Department of Education and Research of the Congress of Industrial Organizations.

STATEMENT OF STANLEY H. RUTTENBERG, DIRECTOR, DEPARTMENT OF EDUCATION AND RESEARCH, CIO

Mr. RUTTENBERG. Thank you, Mr. Chairman.

At the top of my statement there appears the statement that this is presented on behalf of the Congress of Industrial Organizations. I wish that would be stricken, and that it appear as just a statement from me, although I do not think it differs very much from the statement of the CIO.

Chairman WOLCOTT. I think the committee understands that each one of you is on his own.

Mr. RUTTENBERG. There has been much discussion and analysis of the outlook for investment. Determinations have been made concerning the level of new investment and the possible effects of new incentives upon maintaining continued high levels of employment and production.

One day last week, Secretary of the Treasury Humphrey, testifying before this joint committee, developed the general thesis that naturally follows from his comment:

> Production is the goose that laid the golden eggs * * *. Payrolls make consumers.

In discussing tax proposals to liberalize depreciation and give partial relief to double taxation of dividends, he stated:

> Everyone will benefit because the economy will benefit with the resulting creation of more jobs with better tools and machinery to produce higher payrolls and cheaper things for public consumption.

Certainly the theory underlying his proposal has many supporters. Furthermore, no one, either inside or outside of the administration, can contest the belief that America must have a growing and expanding economy. However, the steps to be taken to reach this goal are debatable. From one point of view, the objective can be accomplished by encouraging investment and business expenditures for new plant and equipment. From another point of view, the way to reach the desired economic condition is to stimulate consumer income and purchasing power, which, in turn, stimulates investment in expanded plant and equipment.

No one can deny that investments are necessary and essential. Without them, plants become obsolete, and inefficient, production declines, job opportunities dwindle, and stagnation blights the whole economy. I am not here to contest this fact. We cannot have a dynamic economy without new investments. The question, however, is, what is the best way to stimulate such investment? Must it be done directly through new tax concessions, through encouragement to business, or will such investment result from expanded consumer income and purchasing power?

Moreover, we must not lose sight of the fact that the question before us must be answered at a particular point in time. This is no abstract theory—it is a problem in the context of certain past and possible future trends and developments. What are the factors surrounding this decision?

First and foremost is the fact that each of the post-World War II years has shown a new record for investment even though tax rates on corporations and individual incomes were continually rising. In the past year, we had the highest level of investments this country has ever known; this was true despite the highest tax rates, with the exception of those during World War II, that this country has ever known. It does not take too much analysis to realize that investment boomed in the face of high taxes primarily because markets, consumer and government, were tremendously strong in those years and profit opportunities were very great.

In spite of these rising levels of investment in recent years, culminating in the peak year 1953, however, production is declining. New job opportunities are scarce. Unemployment is steadily increasing. Part-time work is becoming the norm rather than the exception.

We must, therefore, answer this question: What is wise policy for stimulating an expanding and growing economy at this particular point in time?

A balanced economy requires that consumer income and consumer expenditures remain at very high levels. There is little question concerning what has happened to the existing output of American industry. Excessive inventories, as Mr. Watkins has developed, during 1953, followed by the rapid deceleration of inventory accumulations, which Mr. Watkins implies will happen throughout 1954 or certainly for the first 6 months, indicate that consumers have not been buying all that existing plant and equipment could produce.

He indicated, I think, in his statement, Mr. Watkins did, or the statement he was reading on behalf of Mr. George, that stocks were $2 billion to $3 billion greater than sales were justified during the first quarter of 1953. So it is not a question of existing plant and equipment producing at full capacity.

This lack of consumption creates a paradoxical problem when we consider that the productive capacity of the Nation must continually expand, year in and year out, to absorb the new influx of workers.

At this point in time, therefore, should policy be directed, as the Secretary of the Treasury indicates, toward encouraging corporations to make investments in new equipment and new plant, in the hope that such action will create job opportunities and an expanding economy? Or should policy be aimed at increasing the spendable income available to the mass of American consumers, thus enabling the American people to buy up the product of existing plant and equipment and encourage expansion to meet ever-widening needs?

Just the other day, the president of the United States Steel Co., Mr. Benjamin Fairless, announced that during the first half of 1954, the steel industry would probably be operating at 80 percent of capacity. This means producing on the average about 470,000 tons of steel per week less than was produced during the same week of 1953. The automobile industry has announced that there will be approximately three-quarters of a million to 1½ million fewer cars produced during the year 1954 than were produced in 1953. Many other similar estimates, familiar, I am sure, to this committee and to the participants in the panel, could be cited. Suffice it to say that existing plant and equipment in 1954 will not be producing at this ultimate capacity.

Is it, therefore, wise policy at this particular point in time to grant concessions to corporations, to big business, to wealthy taxpayers on the general theory that such tax revisions will help the economy "to grow and expand, will benefit every citizen, with steadier employment and higher standards of living"? The choice becomes quite simple: Is our main problem to give special, new incentives to get more productive capacity now, or is it to encourage more buying capacity—more ability to produce or more ability to buy products?

Secretary Humphrey's tax proposals, even if they have a sound basis, give no assurance that they will in themselves produce increased investments at this point in time. All the easy money and tax encouragement in the world could not produce significant investment after 1929, when basic markets were weak. On the other hand, there can be little question of what would happen by increasing the incomes of the mass of American consumers through wage increases and/or through increases in personal individual income tax exemptions and excise tax cuts. Such increased income would undoubtedly find its way into the spending stream.

Everyone seems to give lip service to the idea of maintaining prosperity and building an expanding economy. If this is our end, we will have to stimulate consumer income and increase the purchasing power of the American people.

Increased purchasing power will encourage industry to produce at full capacity because of higher levels of demand. The stimulation of purchasing power can be accomplished best, I repeat, at this point in time, by increasing the personal individual income-tax exemptions and by permitting excise taxes to lapse automatically on April 1, and even by going further and reducing excises more than the automatic provisions permit.

These steps would increase the spendable income of people who normally spend all they earn. The resultant demand will create an atmosphere for investment in new plant and equipment. Without such an atmosphere, incentives to invest decline to a point of stagnation. Without such an atmosphere, wealthy stockholders and corporations will put their reduced taxes away in savings and wait for incentives to invest—incentives that come only with increased demand of a type that will absorb more than all the product that existing plant and equipment can produce.

But the current tax recommendations made by the administration and already finally approved by the House Ways and Means Committee take no cognizance of these economic problems. There are three specific tax proposals which account for almost all of the $3 billion loss in revenue which has already been approved by the Ways and Means Committee. One is the liberalization of tax treatment of depreciation; the second is the partial relief for "double taxation" of dividends; and the third is extending the period of carryback of losses.

These three proposals combined mean that over 90 percent or some $2,850,000,000, of the $3.1 billion loss in revenue, after the tax bill becomes fully effective, will be attributable exclusively to tax benefits for corporations, business, and wealthy stockholders. On this, Mr. Chairman, there can be no question. Those are the facts.

When the full effects of these three tax proposals are felt, the first will cause a loss in Federal revenue to the Government of $1,550,000,000, while the second, partial relief as to dividends, will mean a loss of $1,200,000,000, and the third, the carryback provision, an additional $100 million.

In the face of the present economic situation confronting the country, therefore, production will not be the goose that laid the golden egg. Rather, I think Secretary Humphrey's proposals will have paid an egg that will only increase the gold of the wealthy taxpayers. This is an egg that will not hatch because it will not be paid in an atmosphere of increased demand for the products of American industry. It will merely be hidden in the savings of wealthy stockholders and corporations for an incubation period that is dangerously long.

There is no need to pursue analogies of eggs and geese further. There is an economic problem before us. It can best be solved by granting tax concessions to the mass of American consumers, thereby increasing their purchasing power, stimulating demand and, through that demand, creating an atmosphere that existed throughout the post-World War II period, when investments increased year in and year out, regardless of the level of corporate or individual income taxes.

Thank you, Mr. Chairman.

Chairman WOLCOTT. Thank you, Mr. Ruttenberg.

On the question of taxation and private investment, we have Mr. George Terborgh, Director of Research of Machinery and Allied Products Institute. Mr. Terborgh, we are very glad to have you participate at this point.

STATEMENT OF GEORGE TERBORGH, DIRECTOR OF RESEARCH, MACHINERY AND ALLIED PRODUCTS INSTITUTE

Mr. TERBORGH. I did not realize, Mr. Chairman, that Mr. Ruttenberg was going to cover my subject for me. I would have addressed my remarks somewhat differently.

Mr. RUTTENBERG. I am sure not from the same point of view, George.

Mr. TERBORGH. My statement is so brief, that with your permission, I will just read it verbatim.

I have been asked to discuss briefly the impact on private investment of the various tax reform proposals offered by the President in the Budget Message and the Economic Report. These proposals are of course numerous, covering many aspects of tax policy and administration, and I shall confine myself therefore to those with a direct impact on private investment activity.

In this list I include the reform of tax depreciation, the abatement of the double taxation of dividends, the extension of the loss carryback to 2 years, the grant of current deductibility to research and development expenditures, the shift to the Government of the burden of proof in section 102 cases, the liberalization of the tax treatment of income from foreign sources, the optional tax treatment for certain corporations and partnerships, and the advancing of the payment dates for the corporation income tax.

With the exception of the last-named item, the advancing of the payment dates for the corporation income tax, these proposals seem to me definitely favorable to private investment. Two of them are preeminent from this standpoint, the depreciation reform and the dividends credit. In view of the limited time at my disposal these are the only ones on which I shall comment separately.

The treatment of depreciation for income-tax purposes has long been one of the major defects of our revenue system. We have what is probably the worst tax depreciation system of any major industrial country in the world.

Basically there are two defects to be remedied:

1. Present practice enforces a retarded writeoff system and therefore a lagged tax-free recovery of capital.

2. The adherence to original cost as the basis for depreciation after a period of inflation makes even an unretarded recovery deficient in real, or purchasing-power, terms.

The President's proposal for the allowance of a double-rate declining-balance writeoff is a reasonably satisfactory solution of the retardation problem. Since it is limited to assets acquired after January 1, 1954, however, it does nothing to correct for past retardation on assets installed before that date. It does nothing, moreover, to adjust for the effects of inflation. This reform must await the future. That it is an important one is indicated by my estimate that future historical-cost depreciation on business assets now in existence will fall short by $70 billion in purchasing-power terms even if there is no further inflation from here out.

The restriction of the proposed reform to assets acquired after January 1, 1954, which is of course discriminatory against assets acquired previously, can be justified only on the ground that the tax cost must be limited at the outset to what the budget can absorb.

Certainly it is much better to make the reform available on hereafter-acquired assets only than not to effectuate it at all, and I am not disposed to be critical of the method chosen provided it is regarded as a first step in a program of greater scope. Limited as it is, it will afford a very substantial stimulus to private investment. It is a constructive move of major importance.

DIVIDENDS CREDIT

Here again we have a first step on a long overdue reform. There is legitimate difference of opinion on the desirability of a complete elimination of the double taxation of dividends, but few will deny the justification for going at least as far as the President proposes. This partial abatement of double taxation should increase the attractiveness of equity investment as against debt obligations and should exert a salutary stimulus to business risk-taking. I can only applaud it as a sound advance.

By singling out these two reforms I do not disparage the other proposals enumerated earlier. I repeat, save for the advance in corporation tax payment dates, they are very much on the credit side of the ledger from the standpoint of private investment. While the program does not go as far as I should like in certain respects, even as a starter, when due allowance is made for the necessity of proceeding slowly on reforms that cost substantial tax revenue, I think it should be commended. We should never lose sight of the fact, however, that it is a starter, not a terminus, to tax reform.

Chairman WOLCOTT. Thank you, Mr. Terborgh.

On the general question we have Mr. M. Joseph Meehan, Director of the Office of Business Economics of the Department of Commerce. We are very happy to have you, Mr. Meehan.

STATEMENT OF M. JOSEPH MEEHAN, DIRECTOR, OFFICE OF BUSINESS, ECONOMICS, DEPARTMENT OF COMMERCE

Mr. MEEHAN. Mr. Chairman, I believe that the situation with respect to investment has been adequately commented on by the three speakers who covered plant and equipment, housing, and inventories.

The decline in general activity which we have as revealed in the gross national product—and this is stressed in the Economic Report—has been in the inventory sector of investment.

As pointed out in the Economic Report, the sum total of what we call final demand in the economy has not undergone any change since the second quarter. The aggregate level of investment and consumption plus Government expenditures on goods and services in the fourth quarter was the same as in the second quarter peak.

What has happened has been a decline in investment which, as pointed out earlier, has centered in the inventory component. The amount of fixed investment, that is, the sum total of residential construction and of plant and equipment investment, has not undergone any marked change during that period. As Mr. Keezer pointed out, the latest date that we have, that is, the estimates which business has reported for the first quarter, show that we start out this year with a rate of plan and equipment investment which is equal to the $28 billion rate for the year 1953 (see also p. 896 for materials subsequently available for the printed record).

The swing in the rate of inventory investment, as pointed out in the Economic Report and reviewed here for the committee by Mr. Watkins, has been very large.

In the early months of last year and in the second quarter, the rate of inventory accumulation was higher than warranted by the level of final demand, and we had during the second 6 months of 1953 a drop in the rate of investment from an annual rate of increase of approximately $6 billion in the second quarter, to a reduction in the fourth quarter, as indicated by Mr. Watkins, of approximately $3 billion at an annual rate.

That is a change in this volatile inventory component of investment of approximately $9 billion at an annual rate, and that is also approximately the decline in the total level of output, the total gross national product of the United States during this period.

It is significant, again as pointed out in the Economic Report, that the aggregate of consumption, the fixed investment and Government expenditures for goods and services has been maintained during this period of inventory adjustment. We have had up to the end of 1953 a cutback in production and orders associated with a substantial change in inventory position so far without a decline in the final demand in the economy. That we regard as significant.

In closing, I just want to say that the latest figures we have on the inventory picture, which are somewhat later than we had at the time the Economic Report was submitted, show for this final quarter of 1953 some liquidation of inventories, which is consistent with the summary which Mr. Watkins gave to you.

Chairman WOLCOTT. Mr. Meehan, for the record, what are your figures on the gross national product of 1953?

Mr. MEEHAN. Gross national product for 1953 is approximately $367 billion.

Chairman WOLCOTT. What is it running at at the present time?

Mr. MEEHAN. The figure for the fourth quarter was at the rate of $363½ billion. The peak rate was around $371 billion to $372 billion. As I indicated—the change in the inventory component has accounted for the difference between the peak figure in the second quarter, and the figure that we wound up with.

The year-end figure, that is, the fourth-quarter figures for the national accounts generally, shows a higher rate of activity than in the fourth quarter of 1952. That was true of income as well as of product.

Total personal income in the fourth quarter was about $4 billion higher, at annual rates, than the figure for the fourth quarter of 1953.

Personal income for that quarter was at a rate of about $285 billion a year, as compared with a peak of around $287.5 billion. We have those figures on a monthly basis. The peak was reached in the summer.

Chairman WOLCOTT. Have you gone far enough in your analysis to give us any information on what you expect the gross national product might be for 1954?

Mr. MEEHAN. Mr. Chairman, we have not made any estimates of the year 1954, and I am not prepared to give such a figure.

Chairman WOLCOTT. I think we should make it clear that we welcome a discussion among members of the panel of any of the phases of this question. Mr. Terborgh, do you have any remarks to make?

Mr. TERBORGH. May I offer a few comments on Mr. Ruttenberg's remarks?

As I said, I was not anticipating any discussion of the tax problem or I would have covered in my prepared statement some of the observations I am about to make now.

What we have in the tax-reform proposals is a basic overhaul of the structure of the Internal Revenue Code. It was not started with a view to the particular business situation at the time.

These reforms were not contrived specifically for business stimulation in the short run. They are long-run basic improvements in the revenue structure. I think, therefore, it is quite mistaken to appraise them by the sole criterion of whether or not they are currently stimulative.

With that as a background I should engage the question of whether they are, in fact, stimulative and appropriate to the circumstances in which we now find ourselves.

The hoary argument as to whether we should combat a depression by trying to stimulate consumer purchasing power or, on the other hand, by trying to stimulate business, engages a phony problem. It presents a choice we do not have to make, and should not make.

If we were in a situation in which we found it desirable to make special tax adjustments as a current business stimulant, I can assure Mr. Ruttenberg I would be strongly in favor of reducing taxes on personal incomes and on excises, along with taxes on business. But we are dealing, as I said, with a long-range overhaul of the Internal Revenue Code. Incidentally, it does make substantial revenue concessions to individuals as well as to business.

I enjoyed the fine punctilio with which Mr. Ruttenberg emphasized repeatedly that his position is relevant only to this particular time. It may be that my memory plays me false, but I have no recollection of having heard any other position from either Mr. Ruttenberg or the organization with which he is associated, and if he will refer me to a time in which he has taken such a position I should be delighted.

Representative PATMAN. May I ask the gentleman a question?

Mr. TERBORGH. May I add just one thing, Mr. Patman?

Representative PATMAN. Yes.

Mr. TERBORGH. My own feeling is that so far as the adjustment of business depreciation is concerned, it will produce more stimulus per dollar of revenue loss than we could get by any alternative tax approach.

I know, as a matter of observation, that machinery salesmen are already selling this tax reform to their customers, and are finding their customers much more responsive to the purchase of equipment in anticipation of it.

Representative PATMAN. I would like to ask you this question, enlarging just a little bit on what Mr. Ruttenberg said: Production, of course, is very necessary, but do you not think that consumption is more necessary. In other words, just production alone, if it is not consumed, will not get the job done. What good is purchasing power unless it is used? We can have all kinds of purchasing power, as you know, and not use it, and it does not mean anything.

It is possible to have both production and purchasing power, but if that purchasing power is not used to buy production we can still go right into a recession; do you not agree to that?

Mr. TERBORGH. That is correct; I agree.

Representative PATMAN. Well, do you not agree then that if you just keep on expanding the production, without doing something toward stimulating the use of purchasing power, you are probably doing too much in one direction and not doing enough in the other?

Mr. TERBORGH. I do not accept the premise of Mr. Ruttenberg that we are confronted with a capital saturation, and that we must somehow balloon consumer expenditure before we can hope——

Representative PATMAN. Mr. Watkins said that we had an excess inventory of about $3 billion in December.

Mr. TERBORGH. I am not speaking of inventory; but only of fixed assets.

Representative PATMAN. Just the productive capacity.

Mr. TERBORGH. Yes.

Representative PATMAN. Something not related exactly to this, but since you represent the machinery industry, I assume that includes the machine-tool industry too?

Mr. TERBORGH. They are one of our member organizations.

Representative PATMAN. What is the outlook for machine tools this year, as distinguished from machinery? There is an estimate here that there will be a 10-percent reduction in machinery. Will machine tools be that much or more than that or less than that?

Mr. TERBORGH. Well, I think possibly more in machine tools.

Representative PATMAN. More in machine tools?

Mr. TERBORGH. Their recent history is quite unrepresentative of machinery, in general. They were ballooned after Korea to tremendous heights, as you know, and they are in the process of working downward toward more normal levels of activity. There was no comparable expansion in the other areas.

Representative PATMAN. Another question about the taxes, and I will be through. You mentioned the carryback provision that is proposed.

Mr. TERBORGH. Yes.

Representative PATMAN. Will that include individuals or just corporations?

Mr. TERBORGH. I assume it would include individual business operations. Certainly it would include proprietary business, and partnerships; yes.

Representative PATMAN. That is, individuals in partnerships as distinguished from a corporate business.

Mr. TERBORGH. Well, to the extent that an individual can incur a loss without being in business; but it is not too evident how he can do so.

Representative PATMAN. In other words does this not give a corporation a benefit that a person is not entitled to?

Mr. TERBORGH. Ordinarily, zero is the bottom of an individual's income unless he is in business. If he is in business, he can go below zero by running losses, is that not correct?

Representative PATMAN. I assume so. You are more familiar with that than I am.

Mr. TERBORGH. So it is a business loss essentially.

Mr. RUTTENBERG. I wonder if I might just comment on the remarks which Mr. Terborgh made in his exchange with Congressman Patman.

I think it ought to be perfectly well understood, Mr. Terborgh, that

I did not indicate that we are now faced with capital saturation, that is, saturation of plant and equipment. I did specifically say that we must have an expanding and growing economy.

The problem though, as I emphasize again, at this point in time, is that existing plant and equipment, existing capacity, are not now being utilized.

If we are going to have a growing economy and have job opportunities for the new and enlarged population, we must expand our capital structures. Consequently over the long run—I would strongly support the notion that capital must be encouraged to invest in new plant and equipment to produce the products that the consumers need.

You said at the beginning of your remarks, that relating consumer purchasing power to business investment is a phony problem, and because it is not a completely black-and-white proposition, we do not have to make such a decision now.

I agree with you that it is not a black-and-white proposition, and that the two positions are extreme; one or the other in itself is not going to solve the problem of expanding the economy. The solution will be found through a coordination of expanding consumer income and purchasing power with the development of new plant, equipment, and expansion in productive capacity.

The tax revisions now being considered were started, and the discussion started about them, more than a year ago when we were at a different point in our business cycle. Had the economic situation of a year ago continued, then I dare say some of these tax concessions now being granted would be justified. The carryback provision, in my judgment, would be justified. We have said this in congressional testimony in the past. That answers your question as to when we have ever supported encouragement to business in terms of investment.

We would generally go along with some new approach, I am not sure that the approach now being suggested is the right one, to the problem of depreciation. We have in the past gingerly supported accelerated depreciation on a 5-year basis for certificates of necessity; we have specifically supported accelerated depreciation in terms of distressed areas, in terms of encouraging firms to come into areas where we have chronic unemployment. Our record therefore is not completely black on the question of encouraging business investment.

But I again emphasize that at this particular point this Congress is considering tax concessions that do not aid and stimulate the economy.

Just because they started the consideration of these technical revisions more than a year ago is no reason to continue it now. I would suggest that the Ways and Means Committee completely reverse what it is doing or postpone these theoretical technical decisions on double dividends and accelerated depreciation, and move to stimulating consumer purchasing power through specific individual income-tax exemptions.

Chairman WOLCOTT. Mr. Keezer.

Mr. KEEZER. May I make an observation—in agreement with both Mr. Terborgh and Mr. Ruttenberg—which supports the proposition that investment and consumption does not present a case of either/or; it is not a case of black or white.

Approximately 25 percent of our industrial workers are engaged in manufacturing or installing capital equipment. They are consumers as well as workers engaged in producing capital equipment. Their capacity to consumer is the result of investment in capital equipment.

May I also observe that the problem of sustaining capital investment by business is not simply a matter of increasing productive capacity. One of its major dimensions—certainly at the present time—is that of modernization. Mr. Patman has expressed an interest in machine tools.

"American Machinist" recently conducted an inventory of our country's supply of machine tools, and I suppose machine tools are our most basic industrial equipment. This inventory showed that 56 percent of all machine tools at present in place are overage; 20 percent of them are over 20 years old. Here is a case where you can have a stimulation of capital investment which both stimulates consumption and stimulates modernization. Our estimate—we take this largely from Mr. Terborgh's work—is that the capital equipment in place in this country at the present time has a value in current dollars of about $500 billion, but our studies also indicate that somewhere near a fourth of this equipment is worn out or obsolete. So we have quite a different dimension of capital investment than simply consumption versus expansion of producing capacity. We have the tremendous problem of modernizing our industrial plants.

Representative PATMAN. Let me ask you one question there. If so much of this equipment is obsolete, why should there not be an increase in the machine-tool production this year instead of a decrease?

Mr. KEEZER. There would be, if companies needing the equipment had the funds with which to purchase it and modernize their plants.

Representative PATMAN. You mean, the concerns in production? For example, the Economic Report of the President on page 217 shows that this past year, 1953, the corporations gained in retained profits, depletion allowances, and depreciation allowances, almost as much as they spent, and the rate of increase is much higher. If you will look under "uses," the plant and equipment outlay was $22.5 billion in 1952 and increased $1.5 billion to $24 billion in 1953. The sources, including retained profits, depletion allowances and depreciation allowances, increased from about $19.1 billion to $22 billion; that is nearly $3 billion, or nearly twice as much as the rate of increase.

If that process continues, why should people invest more money in concerns like that? The companies have no place to put it. If they are going to get their expansion money from depreciation, depletion, and retained earnings, where will the people who have savings put their money? Where will the people who will benefit under the proposed exemptions in the tax law put their funds, if this information is correct in the President's Economic Report?

Mr. KEEZER. If, by my first reply, I suggested that companies generally are short of funds to buy modern equipment, I overstated what I had in mind, and I also contradicted what I said at the outset about the strong financial position of business generally. But, as I also said earlier, there are within the business structure great differences between the capacities of individual firms to buy the new equipment they need, with the smaller companies not so well fixed as the large. If all the companies that need new machine tools had the money to buy them, there would be an increase in machine-tool production this year.

Representative PATMAN. The large ones have a great advantage over the smaller ones, because the big concerns can get as much as 50 percent or more of their expansion money from retained earnings. These are funds which have been described before this committee at one time as costless capital. This seems to me an excellent description. What chance has a little man across the street in competition with the branch of a big concern that is getting its expansion money in the form of costless capital—retained earnings—particularly if it gets big enough to fix the price to get these earnings. Don't you see a great disadvantage there to the little man when the larger companies can have available so much in retained earnings?

Mr. KEEZER. I do not understand this term, "costless capital."

Representative PATMAN. It is costless to the corporation when they fix their prices high enough at a point where they can collect enough from the consumers not only to pay all expenses and their dividends, but can have enough to put aside in their retained earnings to use for capital expenditures. And it is not a New Deal phrase, I assure the gentleman. Mr. Clarence Francis, the president of General Foods, used that phrase. At least it was from him that I first heard it, and I think it is a good one.

Chairman WOLCOTT. Will you yield?

Representative PATMAN. I yield.

Chairman WOLCOTT. I think the question came up in the hearing before this committee in respect to the availability of markets for issues by corporations and other producers, and it was thought that a climate had not been created in which they could profitably market their issues to get expansion capital. I believe that what Mr. Patman is referring to is the fact that until a climate is created in which business and industry and agriculture can get expansion capital in the open markets, they have had to rely upon retained profits.

Mr. KEEZER. Yes.

Chairman WOLCOTT. And they built up their reserves out of the profits. Is that not what you had in mind, Mr. Patman?

Representative PATMAN. I would not agree with your interpretation. He said it was "costless" because it was cheaper to raise the money that way.

Chairman WOLCOTT. It has a special use in connection with that study?

Representative PATMAN. As used in connection with the investment of their retained profits.

Mr. TERBORGH. You will find that figure, Mr. Patman, in the sources and uses of capital, $7.5 billion from net new issues. Unfortunately this is not broken down between stock and bond issues, but about $1.5 billion is stocks; isn't that right?

Mr. MEEHAN. I do not know the breakdown, George.

Mr. TERBORGH. The stock issues have been very low in the postwar period compared with borrowing.

Representative PATMAN. There is another case. The little fellow cannot get money through the stocks and bonds, and the big fellow does not have to because they get it through these depreciation, depletion, and retained earnings.

It occurs to me that if you further help the big man and give him a greater advantage over the independent concerns of the country, it is a very dangerous trend. Don't you think so, Mr. Keezer?

Mr. KEEZER. I am particularly impressed by the urgency of the problem of industrial modernization. We do have at the present time as a nation a very formidable problem of modernizing our industrial plants, and I think it is possible to work out a tax program which gets you both modernization and employment of this very large segment of our industrial population that works on capital equipment, and you can do both those things at the same time.

Mr. TERBORGH. I would like to comment that the reform of depreciation is quite as valuable to small business as it is to large. It is a source of capital to both. There are some additional features of these proposals that would be especially beneficial to small business. I think the carryback is so, as well as the privilege of interchange between the corporate and the partnership form for tax purposes. The proposal for facilitating tax-free transfers in reorganizations is also especially designed for small business.

Representative PATMAN. Mr. Chairman, may I ask Mr. Watkins a question? You mentioned that anywhere down the road there could be a change up or down.

Mr. WATKINS. Yes.

Representative PATMAN. Are you looking for any particular period as to when that change will be more evident either up or down than any other time?

Mr. WATKINS. Mr. George's projections of GNP by quarters indicate a low point in the fourth quarter of 1954. He notes, however, that those who are predicting an upturn, say, in the second quarter of this year, could possibly be right, because it is such a gentle decline that we are in, and because there could be developments proceeding from a number of quarters that might conceivably translate this dip into an upturn by the middle of the year. He does not quarrel with the people who make that prediction. He points out that the differences, after all, are not very great. His total decline in GNP from 1953 to 1954 amounts to only about 5½ percent.

Chairman WOLCOTT. Mr. Watkins has made available to the committee some figures on what businessmen expect for the second quarter of 1954 as compared with the second quarter of 1953, and if it is agreeable to Mr. Watkins, I think perhaps they should go into the record.

(The material referred to follows:)

DUN'S REVIEW AND MODERN INDUSTRY, SURVEY OF BUSINESSMEN'S EXPECTATIONS, 2D QUARTER OF 1954

2d quarter of 1954 compared with 2d quarter of 1953

	All concerns	Manufacturers		Wholesalers	Retailers
		Durable	Nondurable		
Net sales:					
Number reporting	1,315	355	330	407	223
Percent expecting:					
Increase	46	44	50	46	44
No change	32	28	30	34	36
Decrease	22	28	20	20	20
Net profits:					
Number reporting	1,182	324	294	357	207
Percent expecting:					
Increase	37	41	42	31	36
No change	42	36	40	47	44
Decrease	21	23	18	22	20
Selling prices.					
Number reporting	1,284	344	327	393	220
Percent expecting:					
Increase	13	10	10	17	13
No change	68	74	68	63	68
Decrease	19	16	22	20	19
Level of inventories:[1]					
Number reporting	1,295	350	327	399	219
Percent expecting:					
Increase	20	20	20	20	23
No change	47	50	46	49	43
Decrease	33	30	34	31	34
Number of employees [1]					
Number reporting	1,309	350	333	402	224
Percent expecting:					
Increase	11	12	14	7	9
No change	80	71	80	86	84
Decrease	9	17	6	7	7
New orders:					
Number reporting	595	319	276		
Percent expecting:					
Increase	43	41	42		
No change	36	34	38		
Decrease	22	25	20		

[1] End of quarter.

Representative PATMAN. Mr. Chairman, I would like to continue, if I still have not made myself clear.

Chairman WOLCOTT. Yes.

Representative PATMAN. If you were in business, personally, and if you were looking down the road trying to see over the hills and around the curves, would you be looking for a point between the middle of March, say March 15 and April 1, as the best period to indicate what will happen the rest of the year?

Mr. WATKINS. Mr. Patman, I am optimistic by nature. My own "guesstimate" of the situation is that the turn may come in the spring of 1954. This economy of ours is one of great resilience. I also have confidence in what has been described as "the undogmatic inventiveness of the American mind."

Representative PATMAN. I know. That is pretty general. What period would you have in mind?

Mr. WATKINS. You mean, what particular month?

Representative PATMAN. Well, either month, or week.

Mr. WATKINS. I should say, Mr. Patman, if I were able to pinpoint it at a definite month, I would be doing extraordinarily well.

Representative PATMAN. I do not mean to say, conclusively, but I mean just as an indication.

Mr. WATKINS. I think that it is entirely possible that a turn will come before the middle of the year, and I would expect the resurging influences of spring generally to make a contribution toward that. Consequently, I might watch very carefully developments in the second quarter. I should like, however, partly in amplifying my statement here, to come back to this survey of businessmen's expectations.

We have been conducting these surveys, generally quarterly, for a number of years. It is a little complicated to try to go into it, but I think that there is some objective evidence on the outside that indicates that the surveys do have predictive values. Our reporters did this interviewing in January confined to a sample of the larger and the medium sized manufacturers, wholesalers, and retailers throughout the country, what we call a random time-slice sample. We interviewed for 2 weeks, January 11 to January 22, and we got responses from 1,315 concerns, giving their expectations for the second quarter of 1954, roughly 2 quarters ahead, compared with the same quarter last year.

Now, the overall figure that perhaps people watch most closely are those for sales expectations. The results for the January survey show that 46 percent expected higher sales and only 22 percent expected lower sales, the balance, 32 percent, expecting sales to be about the same.

Now, that looks pretty good. But it is considerably less favorable than it has been for the past four surveys. For example, if you take the net percent expecting an increase, that is, the excess of the pluses over the minuses, you get 24 percent as the net percentage expecting increases for the second quarter of 1954 compared with the second quarter of 1953.

About a year ago, that excess was as high as 53 percent and it has been going down for the past four surveys, 53 percent, 48 percent, 30 percent, 24 percent.

Now, more particularly, I should like to comment on the figures on inventories, because they are related particularly to the statement by Mr. George that I made here, at least on the same subject.

The survey shows that for the second quarter of 1954—these January interviews—20 per cent of our respondents expect larger inventories at the end of the second quarter of 1954 than at the end of the second quarter of 1953, but 33 percent expect lower inventories, 47 percent expecting about the same volume.

Expectations for the fourth quarter of 1953, which were taken about 6 months earlier, showed that 32 percent expected higher inventories, 24 percent expected lower inventories, and 44 percent expected about the same.

Now, let me go back a little bit farther to the expectations for the first quarter of 1953. 28 percent expected higher inventories; 24 percent expected lower inventories; 48 percent, about the same.

We have a way of checking up on those expectations for the two 1953 quarters, because in the later surveys, roughly 6 months later, we asked them what their actual experience was for the quarter just ended. For example, in this January interviewing, we asked them how they came out in the fourth quarter of 1953 compared with the fourth quarter of 1952, and we did the same thing earlier with respect to their experience in the first quarter of 1953.

Now, I have done a little trick here which I think is justified. I distributed the percentage expecting no change between the pluses and the minuses in the proportions indicated by the plus and the minus percentages, on the theory that nobody really ever achieves just exactly the same result in the one quarter as in the same quarter a year earlier; and hence what they mean by "about the same" is either a little more or a little less. So I distributed "no change" between the pluses and the minuses in the proportions indicated by those figures.

Let me show you how the first quarter of 1953 expectations compared with the actual. And remember, we take the expectations roughly two quarters ahead of the period concerned, and we check up on the actuals after that quarter has ended, or is about to end.

On inventories for the first quarter of 1953, expectations, plus 54 percent; minus, 46 percent. The actuals, reported two quarters later, plus 54 percent and minus 46 percent. Right on the nose, thanks to luck, undoubtedly. These are not our "guestimates" here, our forecasts. We do not make forecasts. This is what this random time-slice sample of the larger and medium manufacturers, wholesalers, and retailers reported.

Chairman WOLCOTT. May I interrupt you, Mr. Watkins?

Mr. WATKINS. Yes.

Chairman WOLCOTT. I may say for the benefit of the panel and the committee that I believe you undertook this original survey at the request of this committee?

Mr. WATKINS. Precisely, in 1947, at the request of the late Senator Taft, then chairman of the joint committee.

Chairman WOLCOTT. You have been continuing it ever since?

Mr. WATKINS. Quite.

Chairman WOLCOTT. Would you give us another "guesstimate" as you put it, perhaps more specifically on how accurate your survey has been as between predictions and the actuals during the year?

Mr. WATKINS. Mr. Chairman, I should like to say that the National Bureau of Economic Research is making a wholly independent and objective and scientific analysis of the results of these surveys over the past 6 or 7 years.

Dr. Keezer and I were privileged to hear a preliminary presentation of their results at a meeting at Ann Arbor, Mich., just last week. I would say that the results of the analysis up to date look promising, but it is too early for a full report, and I would rather refer you to that independent and scientific source, which will, I think, a little later have a story.

Could I take just a minute or two to finish this story on inventories?

Chairman WOLCOTT. Yes. I merely wanted to get this into the record. I thought this point was the opportune time to call attention to it.

Mr. WATKINS. I am leading up to the expectations for the first and second quarters of 1954.

Now let me give you the story for the fourth quarter of 1953 on inventories: Expectations, plus, 57 percent; minus, 43 percent. That is, 57 percent expected to increase inventories compared with the same quarter of the year earlier, and 43 percent expected lower inventories.

The out-turn, reported roughly two quarters later, was 54 percent increases, 46 percent decreases. It was not on the nose this time, but not far off.

Now I will give you their expectations for the first quarter of 1954 and second quarter of 1954. Then I will be through. We will report later on how they panned out. The first quarter of 1954, inventories, plus, 49 percent; minus, 51 percent, suggesting a moderate decumulation of inventories in the first quarter of 1954. That survey, by the way, was conducted in September 1953.

Now, for the second quarter of 1954: Plus, 38 percent; minus, 62 percent, suggesting very considerable decumulation of inventories the second quarters of 1954.

Mr. TERBORGH. Might that not reflect the fact that the comparative was higher the year previously?

Mr. WATKINS. Quite. That must be taken into account. I cannot possibly do justice to this whole subject in this limited time. You have to remember that the second quarter of 1953 was the peak of the boom, and that is why I think the expectations on sales are particularly interesting. They are expectations for the second quarter of 1954 compared with the peak quarter of the boom.

Chairman WOLCOTT. Mr. Hoadley?

Mr. HOADLEY. Mr. Chairman, I just want to add a comment. It seems to me that the crucial question Mr. Patman has in mind is whether the worst of the inventory correction is nearly over, or whether the Nation still faces a serious further inventory liquidation problem. Mr. Meehan's figures are very significant. Actually there has been a complete reversal in the inventory situation to the extent of roughly $9 billion at an annual rate since the second quarter of 1953. This is quite significant for the total gross national product with inventories, representing a change from a plus factor of substantial proportions in the economy to a minus factor of considerable size.

It is not at all likely that there will be anything like another $9 billion reduction in inventories this year. No doubt some further inventory adjustment still lies ahead, perhaps more at retail than in other areas. The level of Easter sales will make considerable difference in how quickly retail inventories are brought into better balance. Nevertheless, it seems to me that the worst of the current inventory adjustment is now behind us. That does not mean that the economy has completed its "rolling adjustment" that has been going on for 2 years. I believe the inventory phase of the adjustment, however, has been well recognized across business for many months. We have only to look at the downward trend of loans this year to find more evidence that businesses typically are liquidating inventories and consequently improving their financial positions.

In short, we should be able to count on a certain amount of strength in the general economic situation because a good deal of the overall inventory adjustment already has been completed.

Representative PATMAN. Mr. Watkins, did you have in mind Easter when you mentioned the period when the tide would probably turn one way or the other?

Mr. WATKINS. Mr. Patman, I certainly would not want to attempt to pinpoint the turn.

I referred to the resurgent influences that accompany the spring——

Representative PATMAN. Including Easter sales?

Mr. WATKINS. Including "A young man's fancy," et cetera.

Mr. HOADLEY. Mr. Chairman, seasonal patterns are becoming increasingly important to business in the United States. Some old seasonal tendencies are reappearing, but often they now differ in many respects from what was experienced before World War II. For example, summer is becoming a period of more pronounced business doldrums, because widespread vacations typically cut production and at least change the pattern of consumption. My own guess is that this year we are very likely to see a low point at least seasonally in the third quarter, during July and August, which are typically low months.

Mr. RUTTENBERG. Mr. Chairman, in terms of seasonal patterns, I think it ought to be kept in mind that we may see, during March or April or May, either a leveling off or a slight upturn—certainly a leveling off in general business activities. This ought not to be misinterpreted as a recovery from what we are presently experiencing, whether it is a recession or readjustment. The temporary situation that might occur in early spring is certainly only temporary, and one ought not to make calculations on the basis of that leveling off as to what will be the situation in the second half of 1954. What the situation will be in the second half of 1954, I do not know, and I would be like anybody else, purely guessing if I were to make a judgment. But I am inclined to say that the general estimate that the gross national product will continue to fall off in the third and fourth quarters from its level of the first half of 1954 is a good guess, and it may be as low as $350 billion or a little lower at the end of 1954.

Representative PATMAN. In order to take care of the new workers and those displaced by machinery, shouldn't we increase the gross national product? Isn't going downward or even holding our own—isn't that a backward step?

Mr. RUTTENBERG. It certainly is. I would like to comment on that.

Let us assume that the figure may be about $350 billion by the end of 1954. This figure will not be the result of declining prices. It will not be an adjustment for a deflationary period we are going through, although there might be some price decline. It will really be a lower level of economic activity. That is what disturbs me. Continually, there are references that 1954 will not be a bad year. It will not be as good as 1953, but it will be better than 1952. This kind of general statement, which I think is predominant throughout the general testimony of the administration people before the committee, is an indication that they are not willing to accept or do anything about the concept of a growing and expanding economy. We cannot afford to have a year in which the gross national product does not grow or expand, because we have to take care of the growing population; we have to take care of the workers who get displaced as a result of productivity advancements, and there have been substantial productivity gains in the last few years which have displaced workers. These people have to be brought into the labor market, have to be employed, and job opportunities must be supplied for them. We cannot do this if the economy levels off or declines.

Therefore I think it is an extremely dangerous situation when the economy shows even a slight downturn. That is why I emphasized in my major statement that this is not the point in time when we ought to be giving tax concessions to encourage business advancements and business investments in new plant and equipment. This is the time when we ought to be doing just the opposite—encouraging demand, encouraging purchasing power, so that the products that industry can produce can be absorbed.

I might just take this occasion to point out that when Mr. Keezer made his comment that these tax reductions provide funds for the purchase of new plant and equipment or for modernization, that, as he later agreed, was contradicting himself, because in his statement on page 7, he says, "Another element which gives strength to the plans for capital investment is the strong financial position of business." Then he cites the figures which Congressman Patman picked up on this chart, G–47, in the Economic Report on Sources and Uses of Corporate Funds.

So there is money available for modernization, for development of the economy, productionwise, plantwise, in 1954.

Might I just make one further point, as to why it is not necessary or essential at this time to make tax concessions to encourage expansion or modernization? The plans that Mr. Keezer refers to for business in 1954 are very substantial. In the first quarter of 1954, there will be investments running at a rate greater than any other first quarter, as Mr. Keezer pointed out, in the history of these statistics, which runs back to 1946.

So even though they were not anticipating, or they had not yet received the tax concessions, they were already planning in terms of 1954, business investments in new plant and equipment and modernization at levels above the first quarter of 1953.

Therefore, it seems to me, the essential approach now, in terms of finding a policy to turn upward an economy which is on the downturn, is to tackle the specific problem of consumption. I do not mean consumption of machine tools, which Mr. Keezer mentioned. I mean consumption of purchasing power of the mass of American people.

Mr. KEEZER. I think the historic fact is that except in war times, capital investment and business activity as a whole have always gone along together—they are Siamese twins, for all practical purposes. So we cannot just say that we will concern ourselves with consumption and not with capital investment, because always when you have had a high level of capital investment, you have had prosperity and a high level of consumption and vice versa.

Now, on the question of the availability of funds, it is quite true, as I said, that industry as a whole has in sight the money to carry out the program which is at present projected. But you do have within industry a highly variable situation, and I think it would be obscurantist not to take that into account.

It is well established that the smaller enterprises have shared less in accelerated depreciation, relative to their total magnitude than the large companies. Now we do not have accelerated depreciation, except on a quite limited scale; and to argue that investment will be sustained at a satisfactory level simply under the stimulus of consumption seems to me to neglect the realities of the situation. So I do not think that you can make consumption your sole concern on the theory that out of consumption automatically comes investment because the theory just does not hold up.

Mr. RUTTENBERG. In terms of the short run picture, though, Mr. Keezer, are we talking about the depreciation proposal of the Ways and Means Committee to stimulate the economy during 1954? I do not think we are. In terms of the long run, I agree with you that we might well have to take some incentives, changing depreciation to encourage investment. But these proposals of the Ways and Means Committee and of this administration, taxwise, are not going to stimulate the economy in the year 1954.

Mr. TERBORGH. You are quite wrong there. I wish to reiterate my proposition that we cannot get more stimulus to expenditure per dollar of revenue loss than we can get by depreciation reform.

Representative TALLE. It is true, is it not, Mr. Terborgh, that you have spent a good deal of time studying accelerated depreciation?

Mr. TERBORGH. That is correct, yes.

Representative TALLE. That is my understanding. And your studies have led you into the experiences of other countries, have they?

Mr. TERBORGH. To some extent, yes.

Representative TALLE. Since the hour is late I wonder, Mr. Chairman, if I might ask permission for Mr. Terborgh, in case he chooses to do it, to put into the record a brief account of what he has found the effects of accelerated depreciation to be in other countries, as well as our own.

Chairman WOLCOTT. I think it would be helpful and of tremendous interest to the committee if Mr. Terborgh desires to produce the material and can produce it in that respect.

Mr. TERBORGH. Unfortunately, I do not happen to have an appropriate document, Mr. Chairman. What I have written on depreciation has to do mostly with our own country, although I am somewhat familiar with foreign practice. However, I shall explore the possibility of submitting something.

Chairman WOLCOTT. All of the panelists will have an opportunity to revise and extend their remarks in any matter that is germane to the subject matter. Mr. Terborgh, if you could extend your remarks in that respect, it would be agreeable and helpful.

(Mr. Terborgh subsequently submitted the following:)

DEVELOPMENT OF DEPRECIATION ACCOUNTING

With the exception of land, the productive facilities of industry are wasting assets. They deteriorate with time and use, and are subject to obsolescence with the appearance of new techniques and new products. Whatever the particular combination of these factors of wear and obsolescence—and it varies widely from case to case—the end result is the same: the capital embodied in the facilities is exhaused over their productive service lives. It follows, obviously, that capital consumption is an inescapable cost of operation. No net gain or profit results until this cost has first been recouped.

While the wastage of fixed assets must always have been recognized in some fashion by business management, the practice of making regular periodic charges for capital consumption is a development largely of the last 50 years. Prior to this development many enterprises had no systematic procedure whatever, especially the smaller ones.

Under the informal accounting methods of the earlier period, a good deal of outlay on fixed assets was simply expensed as made, rather than spread over future years via the depreciation account. At the other extreme was the practice, especially prevalent among public utilities, of charging off nothing until the retirement of assets, their cost being absorbed against the income of the final year. An intermediate procedure was to charge them off sporadically during their service lives by arbitrary amounts, usually in years of high profits.

Even when depreciation was taken regularly, the amount usually varied considerably from year to year with changes in earnings, or for other reasons. The variability was greatest, as a rule, in the case of small companies, few indeed of which conformed to modern standards of orderliness and consistency in the writeoff. Although by the turn of the century some of the larger industrial concerns had achieved reasonable stability in their charges, if we take American business as a whole, including transportation and public utilities, the picture was exceedingly spotty, with good practice the exception rather than the rule.

DEPRECIATION IN EARLY INCOME TAX LEGISLATION

If depreciation policy was generally primitive for accounting and management purposes prior to the present century, it was even more so for tax purposes. This is illustrated by the two early forays of the Federal Government into the field of income taxation. In the Civil War income tax law, depreciation was not even mentioned. In the act of 1894 (ruled unconstitutional in 1895), it was expressly disallowed. It was not until the third venture into the field, in the corporate income tax of 1909 (nominally an excise), that the propriety of capital consumption charges was recognized. That act permitted "a reasonable allowance for the depreciation of property."[1]

It is the unanimous testimony of students of accounting history that the availability of the depreciation deduction for income tax purposes, beginning with 1909 and continuing thereafter, had a marked effect in rationalizing the accounting practices of industry in this field. The recurring question of how much depreciation was allowable for tax purposes directed attention to the issues and principles involved and accelerated an evolution of accounting practice that would of course have come anyway, but more slowly.[2]

Whatever the relative importance of the various factors contributing to this evolution—which has had its counterpart in other countries as well—there is by now no serious dissent from the principle of depreciation accounting, whether for tax or for managerial purposes. That battle has been won. Present controversy focuses rather on questions of application.

THE PROBLEM OF MEASUREMENT

It is one thing to agree that depreciation should be charged as a cost of doing business; it is another to say how it should be measured. On the question of measurement there is still wide disagreement, reflecting in part conflicting judgments of practical convenience, in part diverse opinions on the theoretical or conceptual question of what depreciation really is.

If these disagreements were minor, we could afford to ignore them, but they are not. On the contrary, disparities in estimates of depreciation can be, and often are, relatively wide. This is true whether they concern the amounts accruing in successive stages of the service life of an individual asset or the amount accruing in a given period on a group of assets. The absolute differences vary, of course, with the amounts of depreciation under estimate.

We can suggest the possible magnitude of these differences. Our estimates indicate that a realistic measure of the depreciation now accruing annually on all business assets in the United States exceeds by about $7 billion, or by almost 50 percent, the amount allowed for Federal income tax purposes.[3] Viewed either absolutely or relatively, this is a tremendous figure.

IMPORTANCE OF THE PROBLEM

The importance of depreciation allowances from the standpoint of public policy stems primarily from their role in the financing of productive capital formation. Even on their present inadequate basis, these allowances—or, more accurately, the funds they make available when earned—account for about half of the fixed capital expenditures of American industry. On an adequate, that is to say, a realistic basis, they would cover a considerably higher fraction, not-

[1] It is interesting to note that it was in the same year, 1909, that the Supreme Court first recognized depreciation as a proper charge in the regulation of public utility rates (*Knoxville* v. *Knoxville Water Co.* (212 U. S. 1)).

[2] It may be added that this evolution has also been furthered in the case of public utilities by the pressure of regulatory bodies, such as the Interstate Commerce Commission, the Federal Power Commission, and others.

[3] The term "business assets" excludes residential property.

withstanding the increase in expenditures that would undoubtedly accompany larger allowances. Depreciation is normally the major source of business investment funds.

This fact should make sufficiently obvious the desirability of realistic depreciation allowances. For it stands to reason that the reporting of capital recoveries as income—the inevitable result of underdepreciation—is bound to affect adversely the supply of capital funds. This would be true even if the erroneously reported income were free of taxation, but it is doubly so under the impact of the high tax rates now prevailing.

The reason for this adverse effect is easily stated. From the standpoint of its availability for capital investment, a dollar reported as taxable business income is subject to a twofold or double erosion. It is reduced both by the applicable income taxes (corporate and personal in the case of an incorporated business, personal in the case of a proprietorship), and by any consumption expenditures made by the owners from dividends or proprietary withdrawals. With the present tax structure, this double erosion ordinarily leaves for investment only a minor fraction of the original dollar. When the dollar is reported as depreciation, on the other hand, it usually remains intact. As a capital recovery, it is tax free. Moreover, because it is a recovery and not income, it is normally regarded by management as unavailable for distribution, hence is protected against consumption by the owners. Both forms of erosion are thus avoided. From the standpoint of capital formation, a dollar of depreciation is worth several dollars of taxable income.[4]

We can illustrate the erosion just described by a hypothetical example. We have, let us say, a corporation subject to a 50-percent tax rate, the stockholders of which pay an average effective rate of 40 percent on dividends received. We assume that it distributes 60 percent of its reported after-tax income, and that the stockholders consume 80 percent of their after-tax income from the dividends, saving 20 percent. We assume further that the corporation has an income of $10 million before depreciation, and that it reports depreciation of $4 million instead of the correct figure of $5 million. The effect of this understatement, and the consequent overstatement of taxable income, is traced in the following comparison with the results of correct depreciation.

	Results as reported	Results with correct depreciation
CORPORATION		
1. Income before depreciation	$10, 000, 000	$10, 000, 000
2. Depreciation	4, 000, 000	5, 000, 000
3. Taxable income (1-2)	6, 000, 000	5, 000, 000
4. Taxes paid (50 percent of 3)	3, 000, 000	2, 500, 000
5. Balances after taxes (3-4)	3, 000, 000	2, 500, 000
6. Dividends paid (60 percent of 5)	1, 800, 000	1, 500, 000
7. Total payments (4+6)	4, 800, 000	4, 000, 000
8. Capital funds retained (1-7)	5, 200, 000	6, 000, 000
STOCKHOLDERS		
9. Dividends received (from 6)	1, 800, 000	1, 500, 000
10. Taxes paid (40 percent of 9)	720, 000	600, 000
11. Balance after taxes (9-10)	1, 080, 000	900, 000
12. Consumption expenditures (80 percent of 11)	864, 000	720, 000
13. Total payments (10+12)	1, 584, 000	1, 320, 000
14. Capital funds retained (9-13)	216, 000	180, 000
CORPORATION AND STOCKHOLDERS COMBINED		
15. Capital funds retained (8+14)	5, 416, 000	6, 180, 000
16. Loss of capital funds from treating $1,000,000 of depreciation as income	764, 000	

This is, of course, an oversimplified example, intended to be illustrative only. We have no disposition to insist on the precise realism of the figures. They do

[4] In the absence of taxation, the adverse effects of underdepreciation would presumably be much less drastic, though still substantial. Assuming management were unaware of the overstatement of income, it would almost certainly approve a larger distribution of dividends (or larger proprietary withdrawals) than would occur under correct accounting, with a corresponding reduction of the internal funds of business. The beneficiaries of the added distribution would probably save some part of it, but to the extent they consumed it there would, of course, be a net loss of capital funds.

suggest, however, that the net loss of capital funds per dollar of underdepreciation is relatively very large.[5]

One oversimplification in this example deserves special comment: the assumed corporate tax rate is the same for both reckonings of depreciation. It may be objected that if tax yields were reduced by the higher depreciation allowance the Government would have to compensate by raising the rate. Without conceding for a moment that all of the tax loss would be recouped in this fashion, we may nevertheless inquire what the effect would be if it were. Suppose that the yield of the corporate tax is the same ($3,000,000) with correct depreciation as with reported depreciation.[6] What then is the loss of capital funds from reporting $1 million of depreciation as income? As the reader can easily determine for himself, it is $528,000, as against $764,000 when the tax rate is unchanged.

We shall not venture even to guess the amount by which the currently accruing investment funds of American industry are reduced by the estimated deficiency of $7 billion a year in its depreciation allowances. We can be sure, however, that the loss is enormous. Quite apart from the inequity of taxing capital recoveries as income—no mean consideration in itself—this erosion of capital resources presents a grave problem of national policy.

While the primary impact of underdepreciation on capital formation is through a reduction of the capital funds of industry, there is a secondary effect that deserves mention in passing. It is a common complaint of equipment salesmen that many of their customers are reluctant to retire assets with substantial remaining book value. They do not like to "take a loss" on their disposal, and the replacement of the assets is handicapped accordingly. Resistance to remechanization from this source is of course intensified by the retarded writeoff prevailing under the present system of depreciation. How widely this attitude prevails, and how important it is for equipment policy in general, it is impossible to say, but certainly it is a factor of considerable significance. It follows that one of the incidental benefits of realistic depreciation would be a substantial abatement of this obstacle to reequipment.

TREND TOWARD LIBERALIZATION

There has been a growing realization in recent years of the importance of depreciation as a source of capital funds, and the trend is definitely toward its liberalization. Since World War II, a number of countries have increased their tax allowances in one way or another, and these increases have generally been reflected, voluntarily or by requirement, in enlarged depreciation for accounting and managerial purposes.

One reason for this trend is not far to seek. The levels of corporate and personal income taxation now in effect in many countries have greatly reduced the capacity, or at least the willingness, of the community to save from tax-paid income. This has threatened to dry up an essential source of funds for the improvement and expansion of productive capital and to afflict industry with a kind of chronic financial anemia. The long-range consequences of such a condition no responsible government can contemplate with equanimity. Since it has not been deemed poiltically feasible to increase saving from tax-paid income through a reduction of tax rates (especially the rates on corporate and upper-bracket personal incomes, from which most of the added saving would come), the obvious course has been to increase tax-free sources of capital funds, chief of which is depreciation allowances.

There is, however, another reason no less cogent. Most, if not all, of the countries effectuating these liberalizations experienced during and after the recent war a substantial degree of inflation. Depreciation allowances are based ordinarily on the original cost of the assets concerned, and are limited cumulatively to the recovery of that cost. This arrangement is satisfactory in an era of relatively stable price levels, but can be seriously, and even ruinously, inadequate after a period of inflation. Under such conditions, the recovery in

[5] There is another possible effect of underdepreciation that should be mentioned in passing, namely, the impact of understated costs on the pricing policies, and hence the gross revenues, of industry. To the extent that these revenues are reduced by the undercosting of depreciation, there is a corresponding reduction in the amount available for depreciation and income combined, hence an overall impact on the supply of capital funds more adverse than indicated in the foregoing discussion, which ignores this possibility. The effect of undercosting on revenue may be offset, to some degree, by the effect of the tax levied on the spurious income which is the counterpart of the undercosting. Insofar as this tax is shifted to the market, it is presumably reflected in an increase of revenue.

[6] This requires a rate of 60 percent on taxable income computed with correct depreciation.

depreciated currency of the amount originally invested in a currency of greater purchasing power is only a fractional recovery in real terms. It does not suffice to offset real capital consumption. Obviously, if the funds to offset this consumption are not provided by taxfree depreciation allowances, they must come out of savings from tax-paid income—a source already inadequate, as just noted, without this added burden.

TWO KINDS OF ADJUSTMENT

In view of these considerations, it is not surprising that the liberalizations of depreciation mentioned a moment ago fall into two main categories: (1) those that adhere to original cost as the basis of depreciation, but attempt to increase the currently available allowance by speeding up the recovery of that cost; (2) those that abandon the original-cost basis for a higher one adjusted for the effects of inflation.[7] Some countries have been content with only one type of liberalization; others have employed both.

We have not attempted a systematic review of postwar legislation in this field, and therefore cannot offer a comprehensive report. The breadth of the trend toward liberalization is suggested, however, by the number of cases that have come to our attention in a cursory reading. The first type of adjustment—the speeding up of historical-cost depreciation—has been noted in Great Britain, Canada, Australia, New Zealand, South Africa, India, Pakistan, Germany, Italy, and Switzerland. Sweden should also be mentioned here, although her legislation was prewar (1938). The second type—correcting for the inadequacy of the historical-cost recovery itself—has been observed in France, Germany, Austria, Italy, Belgium, and Holland.[8] Careful research would certainly disclose other cases in both categories.

It may be added in passing that while these two adjustments are quite distinct in form and technical characteristics, and are designed to subserve distinct purposes, the attempt has often been made to use the first in lieu of the second. In these cases the recovery of original cost has been speeded up beyond a realistic schedule in an effort to offset the inadequacy of the recovery in terms of purchasing power. In view of this effort, on which we shall comment in due course, the distinction between the two adjustments is less clear in practice than it is in theory.

POSITION OF THE UNITED STATES

It will be noted that the United States does not appear on the above list for either adjustment. Notwithstanding an inflation during and after World War II of the general order of 100 percent, there has been no departure, for tax purposes, from historical-cost depreciation. Neither has there been any acceleration of the historical-cost recovery itself.[9]

Failure to adjust for inflation would be less serious than it is if the original-cost recovery were reasonably rapid, but unfortunately, we have one of the most retarded writeoff systems in the world. Taken in conjpnction with the effects of inflation, this system yields the huge deficiency in depreciation allowances previously cited, $7 billion a year. The case for adjustment is therefore compelling.

In view of the frequency of adjustment in other countries in recent years, it may appear that all we need do is borrow, with appropriate modifications, from the best foreign legislation. But the problem is not quite so simple. While some of the inflation adjustments offer a useful point of departure, as we shall see, the various methods of accelerating the original-cost recovery suffer from what we consider a common disability; they have not aimed primarily at a realistic writeoff schedule, but have reflected rather a mixture of objectives.

We spoke a moment ago of cases in which the recovery of original cost has been accelerated beyond realistic limits in order to compensate for failure to adjust for inflation. In some cases it has been similarly accelerated without regard to this factor (the Swedish legislation of 1938, for example), simply from a desire to stimulate more capital investment than would be forthcoming under a realistic procedure. In other cases, of course, both considerations have been

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[7] The speeding up of the original-cost recovery does not, of course, increase the amount ultimately recovered, but it can increase the amount taken currently, which is the object of the acceleration. This effect will be discussed at length later on.

[8] Both adjustments have frequently been restricted to cerain classes of assets only.

[9] We are referring here to normal tax depreciation. There has been acceleration, of course, to the extent of 5-year amortization on defense facilities. This amortization, offered in lieu of normal depreciation on certified facilities, is an emergency device, not a regular part of our tax system.

present. Since the objectives have been mixed, it has been unnecessary to determine what writeoff method would be indicated if realism were the sole criterion, and in no case that has come to our attention, with the possible exception of Canada, has any attempt been made to arrive at such a determination.

REALISTIC VERSUS "INCENTIVE" DEPRECIATION

Conceivably it might be desirable, as a means of stimulating capital investment and economic progress, to grant industry regularly a more rapid recovery of its capital via depreciation than can be realistically justified. Or it might be a good thing to grant such an overpaced recovery at certain times only, as part of a contracyclical economic policy. But on these and similar questions we shall offer no opinion.

So long as American industry is receiving in depreciation allowances $7 billion a year less than it is realistically entitled to, it is somewhat premature to consider whether it would be sound policy to give it more than it can justify. Obviously, the first step, and a very large one, is to eliminate the existing deficiency.

There is another reason for the priority of realistic depreciation. Since it is no more than taxpayers are rightfully entitled to, it involves no favor, bonus, subsidy, or handout of any kind. This is not true of incentive depreciation. In going beyond the rightful claims of its beneficiaries, it retains inevitably an element of subsidy. As a favor granted by Government, it can be withdrawn at the pleasure and discretion of Government. In contrast, liberalization of depreciation within realistic limits rests on an unimpeachably secure foundation.

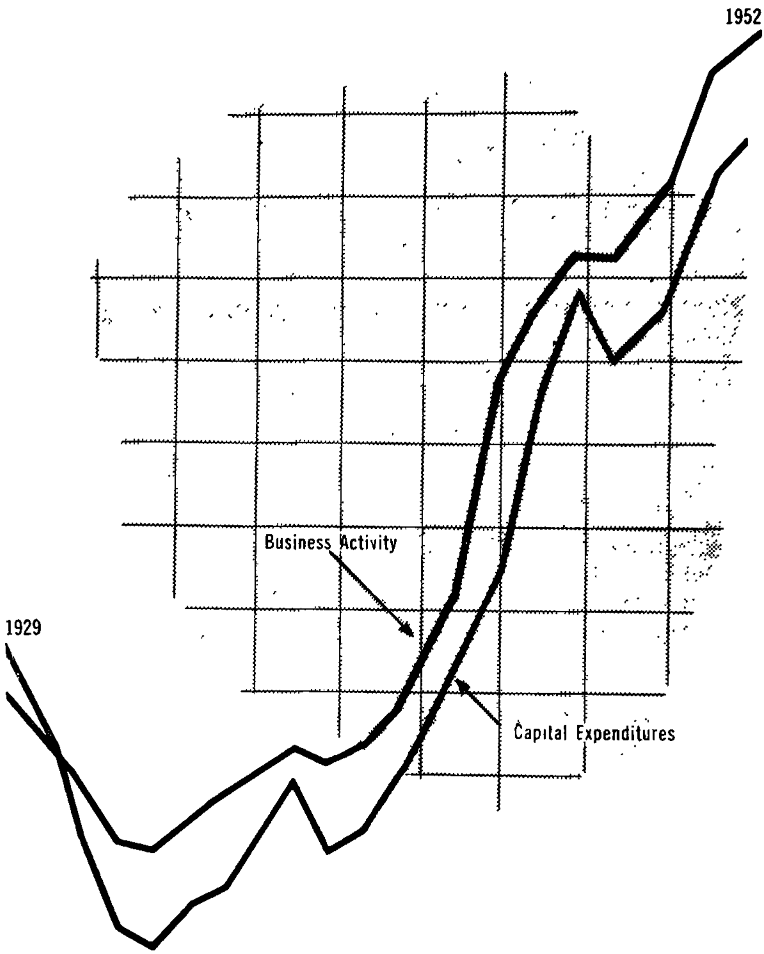
Chairman WOLCOTT. Mr. Keezer referred to a chart on business activity and capital expenditures. You intended that to go into the record, Dr. Keezer?

Mr. KEEZER. I would be very glad to put it in as it stands or with more exact marking. That is a rather "arty" chart, but it is still a correct chart. It does chart the gross national product and total capital investment by business, and except for that war period, you see there they move right along in almost complete harmony.

Chairman WOLCOTT. Without objection, that may go into the record.

(The chart referred to is as follows:)

As capital expenditures go...So goes prosperity



Mr. RUTTENBERG. Would you say, Dr. Keezer, that if you inserted a line showing consumer expenditures, that basic activity as it relates to consumer expenditures would show just the same relationship as your capital expenditure line to business activity?

Mr. KEEZER. I should think it would more or less automatically, since consumer expenditures are such a large part of the whole. What I deplore is our seeming to get on opposite sides of the fence in arguing capital expenditure versus consumer expenditure, because they go together.

Mr. RUTTENBERG. Thank you.

Mr. TERBORGH. Obviously, we are in a situation in which the financial position of both business and the consumers is pretty good. For a variety of reasons, we are getting some slowdown in expenditures, and it may be that some stimulation is needed, but I cannot see that there is any justification for the unilateral attack on that problem. It cannot be held that business expenditures are chained to the current level of consumer outlay. If they were, we would never get out of a depression. They are susceptible of stimulation independently and apart from consumer expenditures. I do not see why the problem has to be approached as a one or the other problem. What we need is a stimulation on both sides.

Mr. RUTTENBERG. The difficulty is that it is now being approached unilaterally.

Mr. TERBORGH. I do not agree.

Mr. RUTTENBERG. I would like to argue that with you sometime.

Chairman WOLCOTT. The committee is very grateful——

Representative PATMAN. I have one other question, Mr. Chairman. I forgot about that.

Mr. Hoadley mentioned about the house fix-up work.

Mr. HOADLEY. Yes, sir.

Representative PATMAN. Do you have in mind using title I, the $2,500 loans, which it is now suggested should be increased to $3,000 loans and the period extended from 3 to 5 years?

Mr. HOADLEY. I think, Mr. Patman, that the changes in title I would be of some assistance. But fundamentally, title I does not provide the full answer because fix-up work involves a good many rather large projects. The addition of a room or two rooms, the fixing up of many unfinished attics, and related projects ordinarily involve more than a few hundred dollars in costs. The average American family in this particular predicament already has a mortgage payment to make, and perhaps some other indebtedness as well. The title I liberalization from 3 to 5 years would help, to be sure, but a project involving the expenditure of several thousand dollars, say, $3,000, would require a very substantial current monthly payment in addition to any regular mortgage payment.

Consequently, it seems to me that at least for the rather large fix-up jobs, we have to find some other solution through mortgage credit rather than consumer credit——

Representative PATMAN. Open-end mortgages?

Mr. HOADLEY. Exactly. I think a good deal more attention should be given to the open-end mortgage device.

Representative PATMAN. That sounds very interesting to me, especially in view of the fact that these title I mortgages carry a high rate of interest.

Mr. HOADLEY. They do carry much higher rates——

Representative PATMAN. Isn't 9.7 percent interest very high on riskless loan?

Mr. HOADLEY. Certainly that rate is much higher than on a conventional mortgage or on an open-end mortgage.

Representative PATMAN. And if it can be done through the open-end mortgage, or through the system you mentioned, of course, they would get the benefit of the existing rate that they now have on their mortgage?

Mr. HOADLEY. That is right, generally speaking.

Representative PATMAN. I hope you develop that further. That is very interesting.

Mr. HOADLEY. General use of the open-end mortgage would be a very important way of opening up a tremendous potential in the fix-up field. Such activity, moreover, can go a long way toward stabilizing the home-building industry in the period ahead.

I have some general materials on the subject of open-end mortgages which I can submit.

(The material referred to follows:)

EXCERPT FROM HOUSE AND HOME MAGAZINE ARTICLE ENTITLED "A MULTI-MILLION-DOLLAR PLUS MARKET"

So for many years, the building industry has been missing the opportunity to cash in on the very large potential represented by remodeling and equipment replacement costing a thousand dollars or more.

Yet all the while we have had for the taking a potent credit tool to open up this barely tapped market for multi-million-dollar corporations. It's an old tool, but it hasn't been properly publicized or promoted. Its name is the open-end mortgage or the additional advance mortgage. It is a mortgage which contains a provision permitting the homeowner to borrow additional sums from his lending institution for the purpose of the repair, remodeling, or the improvement of the structure covered by the mortgage. Household appliances—and even carpeting, can be included. The sum advanced (in general it cannot exceed the paid-off portion of the mortgage) is paid back over the remaining life of the mortgage.

Let's assume you originally had a mortgage on your home of $10,000 and over a period of years paid it down to $6,000. In nearly every State in the Union except Texas, you can go back to your lender and reborrow up to the original amount of the mortgage. A $2,000 re-advance for a new heating plant or new kitchen and laundry equipment spread over 10 years would cost you $21.22 added to your regular payment. Contrast this with $63.80 monthly payment required to pay off a 3-year 5 percent discount note. Obviously, the open-end mortgage makes it a lot cheaper and a lot easier for homeowners to borrow money to improve their property.

Simple isn't it? Well not quite so simple and not quite so easy until now.

The hitch has been that most lenders cannot let you have the added money unless the advance will have the same first mortgage status as the original loan. They need to satisfy their lawyers and bank examiners that the homeowner has not put any subsequent liens on the property that might come between the first mortgage and the loan for modernization and repairs.

In other words, they need title searches and insurance and, until now, the cost of title search and title insurance has often been prohibitive.

In northern New Jersey, for example, title insurance for a $1,000 advance might cost as much as $110—or about 3 years' interest. And even at this price it might involve long delay while the title was being searched all over again.

In about eight States, legislation has been enacted giving first lien status to additional advances up to the original amount of the mortgage. This makes title search unnecessary.

In over 30 States, those that follow English common law, open-end mortgage contracts have first lien status, provided the lender was without notice of the intervening lien. In these States, progressive lenders dispense with the title search, require instead (1) an affidavit from the borrower reciting that no lien intervenes; (2) an agreement to the modified terms; (3) a promise to pay the increased obligation; and (4) recordation of the agreement.

[Reprinted from Architectural Forum, June 1949]

THE OPEN-END MORTGAGE—A NEW KIND OF CREDIT CAN DOUBLE THE HOME MODERNIZATION MARKET

If installent credit is the magic wand that has opened a mass market to many an American mass producer, the manifold uses of credit are only beginning to be understood and exploited by that well-known industrial laggard, the housebuilding industry. Since credit is a means of stretching consumer buying power, it is not a subject of much interest to producers in periods when consumer buying power is high—as it conspicuously has been in the decade now drawing to a close. But this spring, as appliance sales dropped 40 percent below last year's level, as housebuilding starts dropped 10 percent below last year's record rate, producers in all fields looked to see what credit could do for their markets.

In this scrutiny, the housebuilding industry was more fortunate than some others. For it could discover a new credit tool ready at hand, put on a sound legal footing over the last 5 years but not much used while cash buying power was high and inflation the biggest economic threat. This is a credit tool which can open a new market to builders, lenders, material producers and dealers. It also promises to do more to improve the quality of United States housing than any other single step since the institution of FHA mortgage insurance.

The FHA system opened the opportunity of homeownership to millions of additional families by making long-term credit at a low interest rate widely available to house customers. Now lenders have a way to make long-term, low-interest credit widely available to owners who need to modernize or repair their homes, who want to buy new equipment, or even carpeting. This is the open-end mortgage—a mortgage agreement which permits the lender to advance additional funds to the homeowner when he needs to repair a leaking roof or put in a new furnace. Last year lenders loaned about $100 million in additional advances under such mortgage agreements.

$4 BILLION MARKET

Some 75 percent of United States homes are over 20 years old and the United States annually replaces less than 1 percent of its total housing supply. Obviously the market for home repair and modernization is enormous. Lenders who have studied long-term modernization loans believe that an active program to make homeowners aware of the possibilities of such cheap credit could double or triple the $2 billion spent for improvements last year.

The kind of credit now most widely used for home repair and improvement is the FHA title I plan. These loans are made by banks and savings and loan associations under FHA insurance at a 5-percent discount. Since the discount is based on the total amount of the loan and not, like simple interest, on the declining balance, it amounts to an effective interest rate of about 9½ percent. The maximum term permitted is 3 years and 31 days. Thus $1,000 borrowed for remodeling would have to be paid back at the rate of $31.90 a month. A typical homeowner may already be paying $57 a month on a $7,100 mortgage. Adding an additional payment of $31.90 would bring his monthly payment to over $88. Since 80 percent of all United States families, according to the Federal Reserve Board, still live on incomes of less than $5,000 a year, this size monthly expenditure is clearly out of reach of most homeowners. Thus needed property repair and improvement is neglected or cut down to what is absolutely imperative, and the hard-pressed owner is obliged to settle for the cheapest materials available.

Contrast these short-term credit terms with the repayment plan possible if advances are made under the original mortgage and if the property is considered as a continuing security for whatever additional credit the owner needs. Suppose homeowner John Doe has paid off $2,500 of the $5,000 mortgage on his house. He has been living in this house for a good many years and he wants to install an oil burner, an electric water heater, maybe a new roof. So he goes to the local savings and loan which holds the mortgage on his house and talks over his plans.

Lender Smith has known borrower John Doe ever since he bought his house. He knows that John Doe is a responsible man in the community and an excellent credit risk. He has, therefore, two good reasons for making an additional loan to owner Doe: (1) the modernization means that the property on which he holds a mortgage will be increased in value; (2) since Doe now owns a large equity, an additional loan to him means that the lender can put more money to work in the safest possible way.

So lender Smith offers John Doe a $1,000 loan and spreads repayment over the remaining term of his original mortgage. If this term amounts to 10 years, John Doe will be able to pay off the $1,000 advance at the rate of $10.61 a month—or just one-third the monthly payment the same loan would have cost him under the title I plan. Moreover, when Federal Reserve Board curbs on installment credit are removed, John Doe will be able to use this additional advance to buy such items as a range, a refrigerator or even wall-to-wall carpeting—which may not be purchased under title I rules.

Now John Doe is in a position to consider realistically the price of the various types of equipment which he can select. If he is advised, for example, that one type of oil burner costing $100 more than another model will reduce his monthly heating costs by $10, he will quite naturally choose the better product and cheerfully pay the higher initial cost. Lender Smith will be glad to see him make this decision; he knows that the more the monthly cost of home and maintenance is reduced, the easier it will be for John Doe to pay off his loan.

BETTER CREDIT RISK

Savings and loan lenders who have been making these additional advances consider them an important part of their security. The First Federal Savings and Loan Association of New Haven, Conn., one of the first to offer this simple credit plan, says: "Our collateral is not safe if the owner is dissatisfied with his house. The owner who can borrow additional funds to keep his property in a good state of repair makes a much better credit risk.

If, then, the additional advance plan has obvious advantages for owners, borrowers—and can open a whole new market of John Does who could not otherwise afford modernization—why isn't it more widely used? Why do many lenders still propose—and many borrowers still accept—short term title I loans? One lenders' association answers this question bluntly: "Management in general has lacked the vigorous initiative and willingness to break away from hidebound procedures and to move forward on the basis of a reasonable risk."

Perhaps a more basic reason is that not all lenders are adequately informed about this kind of credit. A recent Forum survey of 3,000 lenders showed that many of them are making additional advances. But it is interesting that some lenders in Ohio said they cannot make additional advances because it is against State law, while other lenders in the same State said they have been making additional advances for years.

The majority of progressive lenders have over recent years been taking steps to make this kind of credit feasible. They have done this in three ways: (1) by introducing mortgage contracts which provide for additional advances in the future; (2) by using modification agreements to add an additional advance clause to existing mortgages which have not been so written; (3) by simplifying title search requirements.

MORTGAGEE HAS FIRST CLAIM

The question of whether open-end mortgage credit will be economic for the borrower and safe for the lender is really a question of the lien status of the additional advances under State mortgage laws. More than 29 States have followed the precedent of English common law in recognizing open-end mortgage contracts as providing first lien status for additional advances. Such contracts have been standard practice in California for many years, and are now rapidly being introduced elsewhere. Massachusetts, New Jersey, Connecticut, New Hampshire, and North Dakota recently passed laws according first lien status to the additional advance.

The New Hampshire law is typical: "Any sum or sums which shall be loaned by the mortgagee to the mortgagor at any time after the execution of any mortgage hereafter made, for making repairs, additions or improvements to the mortgaged premises, shall be equally secured with and have the same priority as the original indebtedness to the extent that the aggregate amount of outstanding at any one time when added to the balance due on the original indebtedness shall not exceed the amount originally secured by the mortgage."

Under an open-end mortgage contract, the borrower specifically offers his real property as security for any subsequent loan or advance. A number of State courts have ruled that, where the lender has had no actual notice of intervening liens, such an open-end clause in the original mortgage contracts gives any future advance first lien status—that is, priority over any other lien or judgment which may be attached to the property in the period before the additional advance is made. The view of the court in many of these decisions has been that an open-end mortgage agreement puts other lenders on notice that the original mortgagee has first claim on the property.

Horace Russell, counsel of the United States Savings and Loan League, has given this opinion: "A review of the general law indicates that a mortgage given to secure future advances is valid and, duly recorded, will prevail against subsequent purchasers and encumbrances if the mortgagee be without notice, actual or constructive, of such subsequent conveyance or encumbrance; and that in jurisdictions where the point is undecided, constructive notice of such subsequent conveyance or encumbrance might, and actual notice thereof propably would give to the subsequent purchaser or the junior lienor a prior claim as to advances made after such notice."

In states where first lien status is not accorded the additional advance, the lender, for complete legal safety, is obliged to make a title service before he advances the borrower any more money under the original contract. In cities where the title search or title insurance amounts to only $5 or so, this will not add much to the cost of this kind of credit to the borrower. But in some cities a title search may cost as much as $75 or $100—an expense obviously putting the advance out of the class of cheap credit. In such cases, progressive lenders have made arrangements for a "feather search" at a greatly reduced cost, since it is necessary to check the records only as far back as the original mortgage, to make sure that no other liens or judgments have been attached to the property within this period. In Chicago, lenders have arranged for a quick search with the Chicago Title &Trust Co. In New York, some lenders have their own lawyers make a quick search of title at a greatly reduced cost.

THEY KNOW THEIR BORROWERS

More and more lenders, however, are inclined to consider adidtional advances not on the basis of maximum legal security but as an ordinary business risk. This is particularly true of savings and loan lenders, most of whom know their borrowers personally. In many such cases, the lender will rely, less on the rules for complete legal safety, than on his own business judgment and may merely require the borrower to sign an affidavit stating that there are no intervening liens or judgments.

Although the additional advance plan has been pioneered by savings and loan lenders, it is by no means limited to them and has recently been made by all kinds of lenders, including practically all the big life insurance companies. The National Life Insurance Co. of Vermont, for example, has incorporated the additional advance in its loan plan for several years and reports that experience to date has been "eminently satisfactory." Says executive vice president L. Douglas Meredith: "The borrower finds himself in a position to maintain or to improve his property without incurring the expense of new loan papers or the heavy charges of installment financing. Should the borrower need money for other purposes, such as an emergency, this plan enables him to use his real estate equity quickly and effectively as collateral. The lender, who has final determination as to whether or not an advance should be made, benefits from improvement loans because prudent expenditure of the additional advance improves the property securing his loan." National, which makes mortgage loans in 48 States, requires only a partial title search when the additional advance is made.

One obstacle to wider use of the additional advance plan is that the standard mortgage form accepted by FHA for mortgage insurance does not currently provide for it. (But some lenders offer long-term modernization credit under a mortgage junior to the original FHA-insured loan. The Home Federal Savings and Loan Association of Chicago reports that such a secondary mortgage costs the borrower no more than 1 percent of the amount advanced.) FHA, however, is now studying the additional advance. On the other hand, the laws regulating Veterans' Administration guaranty of home loans specifically spell out the privilege of additional advances. Where the borrower has not used his maximum $4,000 guaranty on the original loan, half of the additional advance could be covered by whatever guaranty remains.

In many cities, building supply dealers and lenders have over the last few months launched a cooperative program to inform homeowners about this kind of long-term modernization credit. One national manufacturer of roofing and insulation products has offered its dealers radio time to explain this credit plan to the public. Many a merchant builder is getting interested in revolving mortgage credit as a sales aid. The housebuilder can use the open-end mortgage to pull customers; then, as the years pass, the builder will find that he has built up a splendid modernization business already supplied with financing.

For the lender, the additional advance plan has obvious competitive advantages. One New York lender took $75,000 worth of loans away from a competitor simply by offering additional advances for modernization to the mortgagors. The power of additional advance gives the amply funded institutional lender a big advantage over the individual investors who have in the past owned about one-third of all house mortgages but who can seldom afford to make additional advances. Lenders with limited capital who peddle their FHA loans will have no interest in the additional advance plan; thus institutional lenders offering revolving mortgage credit are likely to get the cream of the mortgage crop.

BASIC CREDIT INSTRUMENT

But perhaps the chief importance of revolving mortgage credit is the opportunity it holds for recognition of the mortgage as a social instrument of prime importance. Every lender knows that one of the chief reasons for mortgage foreclosure is the homeowner's tendency to overload himself with installment credit. Use of the mortgage as a basic credit instrument would establish the local mortgage lender as a permanent credit counselor to the individual family, while low cost mortgage credit, intelligently handled, could provide for practically all the homeowner's buying needs and could be extended even to the purchase of furniture. If credit is understood in its full importance to our whole economic system, there would seem no safer or more intelligent way to employ it than to relate it to the prime security owned by the majority of United States families: a house and land.

[Reprinted from House & Home, November 1952]

HOW OPEN-END MORTGAGES CAN SAVE BOTH LENDER AND BORROWER MONEY AND TROUBLE

(By Warren Hill, assistant executive vice president of the New Jersey Savings & Loan League)

Question: Is an open-end mortgage profitable for the lender?

Answer: It is the most profitable kind of loan a lender can make, judging by the experience of our savings and loan associations in New Jersey, many of which now have many years' experience with the open-end mortgage.

That experience shows there are six reasons why the additional advance is so profitable:

1. It sweetens up the partly paid-off loan by making it large enough to bring the servicing cost in balance with the interest income. Servicing a $2,000 balance is apt to cost as much as servicing a $6,000 balance, but the income is only a third as big.
2. It involves no acquisition cost at all. Every businessman, no matter what his field, knows that repeat business is more profitable than new business, because it involves so much less selling expense and so much less credit investigation. A savings association is familiar with the credit history of every borrower on its books and knows without further checking which ones are desirable risks for additional advances.
3. It is a safeguard against portfolio raiding. A borrower who knows his savings and loan association stands ready to make additional advances under the open-end clause, is less apt to be tempted if a competitor tries to beguile him with a more attractive offer in a period of easy mortgage money.
4. The open-end mortgage makes it unnecessary for the homeowner to overload himself with short-term, high-rate debt to pay for his improvements—short-term debt which might impair his ability to meet the regular payments on his first mortgage. There are many unhappy instances of this type in the files of the savings associations. If the borrower had gotten the money from his original lender instead, he could have saved both parties both trouble and money.
5. The open-end mortgage often enables the homeowner to buy better materials and equipment than he could afford to buy on short-term credit. Inferior materials would either run him into excessive maintenance costs or make him let his property deteriorate, either of which is bad for the lender.
6. The ability to promise additional advances as needed under the open-end clause is a most attractive selling point that gives any savings association which advertises it a competitive edge and make savers out of mortgagors. This competitive advantage is particularly strong against FHA loans, since FHA has not yet joined VA in approving the open-end procedure.

For all these reasons builders and material suppliers will find almost every savings and loan association in New Jersey—and in most other States, I am sure—glad to cooperate with them in financing home modernization or expansion under the open-end mortgage. But they should not expect the savings associations to take the first step. There is no use expecting a financial institution to be aggressive about selling its lending facilities. The first move is up to the builder and material supplier.

If dealers will approach the local savings and loan manager, they can almost always work out an attractive, well-rounded, long-term financial program. They should let the lender worry about the lending techniques and then develop jointly the method for finding homeowners who would like to improve their property if only they could find the money on attractive terms.

[Reprinted from House & Home, March 1953 issue, p. 100]

NAHB Leaders Give 100 Percent Backing to the Open-End Mortgage

(By Richard G. Hughes, first vice president of the National Association of Home Builders)

Leaders of the National Association of Home Builders are 100 percent in back of the open-end mortgage plan and would like to see every mortgage written with an open-end clause. We believe this would be good for the homeowner, good for the homebuilder, and good for the whole economy.

GOOD FOR THE ECONOMY

An important segment of NAHB's overall housing objective is to preserve and extend the life of the Nation's housing inventory.

We have been greatly concerned at the lack of proper maintenance and repair of the Nation's structurally sound housing. In rental units, much of this neglect can be attributed to rent control. In owner-occupied units the greatest part can propertly be attributed to the fact that the owner does not have immediately available funds with which to do the necessary repairs and maintenance which he knows should be done.

The open-end mortgage would make the needed maintenance funds available to the owner and so contribute to the accomplishment of the objective: to preserve and extend the life of the United States housing inventory.

GOOD FOR THE HOMEOWNER

Almost everybody knows the many advantages the open-end mortgage plan offers, the most important of which are these:

1. It would permit the homeowner to get quick, low-cost credit at any time during the term of his mortgage for the proper maintenance and repair of his house.
2. It would allow him to expand his home—add an additional room (which may be necessitated by the addition of children), add a garage or fix a basement up as a recreation room.
3. It would permit him to add home comforts such as air conditioning, which is now available at reasonable prices for the low-cost house.
4. It would allow him to make all these improvements without overloading himself with short-term, high-rate credit—debts that might impair his ability to meet his normal monthly bills and the payments on his original mortgage, and so might jeopardize the entire equity he has in his house.

GOOD FOR THE BUILDER

There are also many advantages in the open-end mortgage to the merchant builder.

The open-end mortgage provides sales appeal. The builder who sells a flexible mortgage at the same time he sells his house can point out to the home buyer that the open-end clause provides a ready means of getting additional financing any time he needs it. Such a mortgage should enable the merchant builder to make more sales.

REPEAT BUSINESS

In States where permissible, the open-end mortgage would enable the merchant builder to repeat business. Statistics indicate that approximately 4 million of the 7 million homes built since World War II had only 2 bedrooms. A major portion of these 2-bedroom houses were sold to young couples whose families are expanding rapidly. Thus, there is now a great need for the third and fourth bedrooms. If the merchant builder had originally provided the buyer with the proper type of open-end mortgage, he certainly should be able to sell that buyer on the idea of letting him add those additional rooms.

PROMOTE THE GENERAL PROSPERITY

Proper use of the open-end mortgage could contribute a great deal to the general prosperity through air conditioning rehabilitation, expansion, modernization and improvement of homes, and thus make a very material contribution toward the maintenance of existing housing.

[Reprinted from House & Home, November 1953, p. 95]

OPEN-END MORTGAGE: LEGAL OPINION VERSUS HORSEBACK OPINION

Open-end mortgages can be made safely in every State of the Union.

The only problem is what, if anything, a lender must do to make sure the additional advances have first-lien status.

Here is the score on that point:

In 32 States the additional advance automatically takes precedence over any intervening lien and no title search is necessary. In 12 States the additional advance probably takes precedence, but the lender had better play safe and get the title searched or insured. In four States the additional advance does not take priority and title search is essential.

These are the important conclusions of a comprehensive and scholarly study just published by the United States Savings and Loan League. Authors are Horace Russell, the league's general counsel and legal authority on the open end, and William Prather, assistant counsel.

Their study will almost certainly encourage wider use of the open-end mortgage which is now making rapid strides among United States mortgage lenders. It sets the record straight for lenders who have been confused by horseback opinion rather than sound legal opinion about what they can and cannot do with this modern mortgage vehicle.

Here are the highlights of their 32-page report:

No search necessary in 32 States. These are Alabama, California, Colorado, Connecticut, Florida, Georgia, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Hampshire, New York, North Dakota, Oregon, Rhode Island, South Carolina, Texas, Vermont, Virginia, Washington, West Virginia and Wisconsin.

In these States, either the statutes or the courts have held that the only way an intervening lien can take precedence over an advance granted through a properly drafted and recorded open-end mortgage is for the intervening lienor to prove that the mortgagee had actual notice or knowledge of the intervening lien when the optional advance was made.

In these 32 States record alone (e. g., through State recording statutes) does not constitute actual notice and is not sufficient to subordinate the priority of later advances. Recommendation: additional advances are perfectly safe except after actual notice. In that case there is enough question as to their first-lien status so that additional advances should not be made.

States where search probably is not necessary. Here are the 12 States where it is questionable whether a search is necessary although it probably is not: Arizona, Arkansas, Delaware, Idaho, Kansas, New Mexico, North Carolina, Oklahoma, South Dakota, Tennessee, Utah, Wyoming, and the District of Columbia.

Although decisions are few, inconclusive or incomplete in this group, the courts would probably uphold the priority of optional advances in the absence of actual knowledge of an intervening lien.

Even though existing court decisions in these States favor the superiority of the optional advance, many prudent lenders will require a title search in the absence of a decision both clearly defined and directly in point. An affidavit from an owner stating there are no other liens against the property may be relied upon for relatively small advances.

Recommendation: in those States where the law is not comprehensive or definitely formulated, mortgagees can deal properly with open-end mortgages by having an authoritative legal study made of the State law and a mortgage form property drafted to secure described future advances up to a stated sum. Where there is little or no litigation, a test case may be tried. If advances are held superior to intervening liens, this settles the matter. If courts hold the contrary, legislation should be instituted.

Search necessary in four States. They are Illinois, Michigan, Ohio, Pennsylvania.

In this small but important group of States, for priority purposes an optional advance is treated as if it were a new mortgage, its lien attaching as of the time of the advance and not back to the parent instrument as in the majority of States. A title search is unavoidable, but the lender can still make advances under a valid first mortgage. If the amount to be advanced is nominal, an affidavit is often taken from the borrower, again as a calculated risk by the lender.

Chairman WOLCOTT. Gentlemen, we are indeed grateful to you for having been here this morning. You have made a very valuable contribution to our study. If at any time you desire to file with the committee for the record any supplemental matter, we would like to have you do it.

Representative PATMAN. I assume, Mr. Chairman, if we want to ask any individual members of the panel to elaborate on certain things, or if we want to ask certain questions, it will be all right to do so, if they want to answer them?

Chairman WOLCOTT. If it is agreeable with the panel. It would be agreeable with the committee. Tomorrow we have the panel on consumption outlook and implications for Federal economic policy.

We shall meet in this room at 10 o'clock. Without objection, the committee will stand at recess until tomorrow morning at 10 a. m.

(Whereupon, at 12:10 p. m., Monday, February 8, 1954, the committee recessed, to reconvene at 10 a. m., Tuesday, February 9, 1954.) 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 9, 1954

Congress of the United States,
Joint Committee on the Economic Report,
Washington, D. C.

The joint committee met, pursuant to recess, at 10: 05 a. m., in room 318, Senate Office Building, Representatives Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott; Senators Carlson and Sparkman; Representatives Talle, Patman, and Bolling.

Also present: Representative Edgar W. Hiestand, of California; Grover W. Ensley, staff director; and John W. Lehman, clerk.

Chairman Wolcott. The committee will come to order.

We have with us this morning an outstanding panel on the question of the consumption outlook and implications for Federal economic policy.

It has been customary, and I believe we can carry it through this morning, for the members of the panel to make a statement—most of them, I believe, have prepared statements—and if it is agreeable to the committee, the panel members may proceed with their statements without any more interruption than is essential. Then I expect that questions will be asked by the committee and by the panelists.

Representative Patman. I think that is a fine idea, Mr. Chairman, because if we do not do that, we will take up all the time on one or two, and these gentlemen and this lady have gone to a lot of trouble, I am sure, to prepare for this hearing. They are furnishing good information; and I think we should give them an opportunity to present it in their own way, first.

Chairman Wolcott. If that is agreeable, we will proceed that way.

Senator Carlson. Mr. Chairman, I would like to state for the record that I am going to have to leave. I have my own committee meeting at 10: 30. I wish to have you feel that I am not just walking out on your witnesses, but I have my own committee to attend.

Chairman Wolcott. Of course, we would agree that there is nothing more important to the Nation than a discussion of this subject. I know that Senator Carlson regrets having to leave.

We would like to make these discussions as informal as possible. We will start out this morning with Mr. Rensis Likert, director of the Institute for Social Research of the University of Michigan.

STATEMENT OF RENSIS LIKERT, DIRECTOR, INSTITUTE FOR SOCIAL RESEARCH, UNIVERSITY OF MICHIGAN

Mr. Likert. Mr. Chairman and members of the committee, ladies and gentlemen. I appreciate the opportunity to participate in this panel, and am pleased that a panel discussion is being devoted to this topic. The subject for our consideration recognizes the important influence that the consumer sector of our economy has upon its overall stability.

As the economic report of the President observes:

> In recent years consumers have demonstrated a remarkable indifference as to what business analysts have to say. In our high income economy, many millions of consumers may, on the one hand, spend more than their income by drawing down savings or going into debt, or, on the other hand, spend appreciably less than their income and still live well. This volatility of consumer markets is, however, a short-run phenomenon. The urge to improve living standards exercises a strong and fairly continuous pressure in our society.

From year to year, however, the fluctuations in consumer buying can be substantial and can, therefore, contribute to the stability or instability of our economy.

To predict with any accuracy what the trend will be in consumer spending, it is necessary to obtain two kinds of data:

1. Economic data showing the resources of consumer units.
2. Motivational data showing what forces are tending to encourage consumer units to spend or to save.

Spending or saving on the part of consumer units will depend upon the intersection of these two kinds of variables. Consumers must not only have economic resources in order to spend but they must also be motivated to spend or they will not do so.

For purposes of prediction, therefore, data must be obtained for these two kinds of variables. Moreover, these measurements need to be obtained on the same consumer units. It is not practicable to get these measurements at regular intervals on all consumer units in the United States, but fortunately a new research tool makes it possible to obtain data of sufficient accuracy from a sample of consumer units.

The Surveys of Consumer Finances have been conducted annually since 1946 using this sample survey method. These surveys are conducted by the Survey Research Center of the University of Michigan for the Federal Reserve Board and in cooperation with the Board's Division of Research and Statistics. The surveys have shown that motivational data in conjunction with economic data can improve the accuracy of forecasts as to the level of consumer expenditures. Take, for example, 1949. During the first few months of 1949, businessmen, Government officials, and economists were predominantly pessimistic. The following few quotations may help to recall the opinions that prevailed at that time:

> Most industrial executives see a general business decline this year. * * * Among the factors adding to the general air of pessimism are: Higher labor and material costs: * * * a drop in the general level of business activity because of the completion of many postwar expansion programs.

This is from the New York Times, February 14, 1949, report on a meeting of the National Industrial Conference Board.

As Sumner Slichter reported in the New York Times magazine of July 17, 1949:

> We have done a fairly complete job of talking ourselves into a depression.

The 1949 Survey of Consumer Finances, based on 3,500 interviews made during the first 10 weeks of 1949, yielded a different conclusion.

In the words of reports published in May and June 1949, of the Federal Reserve Bulletin:

> The proportion of consumers who felt their financial position was at least as good as, or better than, a year earlier, was larger at the beginning of 1949 than in any recent year.
>
> Consumer plans to buy automobiles, other durable goods, and houses at the outset of the year were, on the whole, about as large as buying plans reported early in 1948.

The Federal Reserve Board published detailed evidence derived from the survey, not only about the strong financial position of the economy but also that people's willingness to spend had not been affected by their belief that the period of inflationary price increases had ended.

The relative accuracy of these predictions is well summarized by the following which appeared in the New York Times on April 30, 1950, shortly after the publication of the first results from the 1950 Survey of Consumer Finances:

> * * * It has been indicated by a Federal Reserve Board survey of consumer finances and spending ideas that the green light is still gleaming for purchases of homes, automobiles, and home appliances. A year ago the same report was made and more than slightly disbelieved. It turned out that business leaders were wrong about a major downturn, and that the public would continue to buy, although it thought that prices were a bit on the high side.

In other words, Mr. Chairman, consumers tend not to read business forecasts and do not take their advice.

Without going into detail, I might also say that motivational surveys correctly indicated the downturn in consumer buying in 1951, even though students of monetary developments emphasized at that time the strength of the inflationary forces.

With this background, let us look at the most recent data available on consumer economic attitudes. These were collected by the Survey Research Center in interviews with a national sample of consumers last October. In general, these results show that as of last October consumers were relatively optimistic about the next 12 months.

Among the different questions which we have asked consumers, the one which has yielded answers showing the most marked relationship to expenditures is, "Considering the country as a whole, do you think that during the next 12 months we'll have good times or bad times, or what?" The answers to this question, shown in table 1, indicate that consumers were less optimistic in October 1953 than they were at the end of 1952, but about the same as in June 1952, when consumer expenditures were rather substantial. You will notice the proportion who answered in "good times" runs 42, 56, and 47 percent.

	October 1953	End of 1952	June 1952
	Percent	*Percent*	*Percent*
Good times	47	56	42
Good in some ways, bad in others	10	12	7
Bad times	19	6	16
Uncertain	22	24	34
Not ascertained	2	2	1
Total	100	100	100

It is important, however, that the consumers with above-average incomes were appreciably more optimistic in their outlook for the next 12 months than were the consumers with low incomes. Those income groups who have the greatest purchasing power are, therefore, those whose economic outlook is most likely to lead them to maintain substantial purchases of consumer durable goods. These results for the higher income groups are in table 2, and you will notice there that 55 percent of the families with incomes $5,000 and over answered "good times" in contrast to 47 percent of all families.

TABLE 2

"Do you think that during the next 12 months we'll have good times or bad times, or what?"

	Families with incomes $5,000 and over	All families
	Percent	*Percent*
Good times	55	47
Good in some ways, bad in others	9	10
Bad times	17	19
Uncertain	17	22
Not ascertained	2	2
Total	100	100

Another measure which has a marked relationship to the economic outlook of consumers was obtained by asking:

We're interested in how people are getting along financially these days. Would you say you and your family are better off or worse off financially than you were at the beginning of this year?

The answers to this question, shown in table 3, indicate that consumers last October generally felt about as favorable with regard to their economic condition as they had during the two preceding years. You will see that the "better off" was 24 percent, 26 percent, 28 percent, and 26 percent—no significant shift there.

TABLE 3

	October 1953	End of 1952	Early 1952	End of 1951
	Percent	*Percent*	*Percent*	*Percent*
Better off	26	28	26	24
Same	47	50	41	40
Worse off	24	20	32	34
Uncertain	3	2	1	2
Total	100	100	100	100

When asked about the year ahead, more families expected to be better off during the next year than worse off. See table 4. This was especially true of the higher income groups. Here again the families with the greater purchasing power have a more favorable attitude; and you see the answer "better off" varies from 14 percent of those with income under $2,000 to 43 percent of those with incomes of $7,500 and over, and 31 percent for all families.

TABLE 4

"Do you think that a year from now you will be better off financially, or worse off, or just about the same as now?"

	Income groups				
	Under $2,000	$2,000–$4,999	$5,000–$7,499	$7,500 and over	All families
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Better off	14	32	39	43	31
Same	45	40	38	33	40
Worse off	12	10	10	8	10
Uncertain	28	18	13	16	19
Total	[1] 99	100	100	100	100

[1] 1 percent not ascertained.

The results shown in table 5 were obtained in answer to the question:

Now about things people buy for their house—I mean furniture, house furnishings, rugs, refrigerators, stoves, radios, and things like that. Do you think now is a good time or a bad time to buy such large household items?

As table 5 shows, more people at all income levels felt "now" was a better time to buy large items than was the case the previous year. It was only among the higher income groups, however, that more people felt that "now" was a good time, rather than a bad time, to buy.

TABLE 5

	October 1953	November 1952	Early 1952	Late 1951
Families with an annual income of less than $2,000:	*Percent*	*Percent*	*Percent*	*Percent*
Good time	26	16	23	19
Bad time	48	47	51	50
Families with an income of $2,000 to $4,999:				
Good time	36	26	36	29
Bad time	39	41	38	42
Families with an income of $5,000 and over:				
Good time	41	37	38	31
Bad time	33	31	36	37

These percentages do not add up to 100 percent, since respondents who were uncertain have been omitted.

Comparing November 1952 with October 1953, it goes from 16 percent to 26 percent with those families with an income of less than $2,000, and 23 percent and 19 percent, to 41 percent, 37 percent, 38 percent, 31 percent, in families with an income of $5,000 and over. It is only in the highest income group that more people feel it is a "good time" than a "bad time" to buy. The other two groups still think it is a bad time because of prices.

A total of 18 different questions were asked last October dealing with consumer attitudes, expectations, and intentions. The results on all these questions dealing with motivation were similar to those shown in the five tables that I have just presented. They can be summarized briefly by quoting from a paper by Katona and Mueller in the January number of the Michigan Business Review:

The relatively favorable judgments about current conditions for buying consumer durable goods must be interpreted jointly with the less favorable trends indicated by people's expectations. Past studies by the Survey Research Center show that people's economic outlook, their feelings about their personal financial situation, their views of political developments, and their price expectations influence their willingness to make major expenditures. In appraising the changes which are in the making in the consumer sector of the economy, we must note both the findings that (1) American consumers now look into the future with less confidence than a year ago and (2) that they tend to regard the present as a fairly good time to make large, postponable purchases.

I do not know what effect the increase of unemployment and the discussions of unemployment have had on consumer attitudes and intentions. We usualy find that general publicity about such matters have far less effect on people's thinking than personal experience. Some results on the current expectations and motivations of consumers will soon be available. The Survey Research Center is now interviewing a nationwide sample of consumers for the Federal Reserve Board's Ninth Survey of Consumer Finances. The Board will probably release preliminary results on this survey sometime next month (see p. 891). It is important to put the results that I have presented in proper perspective. They should be treated as tentative, for although the predictive value of the attitudinal and intentions data is promising, only a start has been made. There is much that we do not know about the motivations influencing consumer behavior. We have the methodology available for measuring these consumer motives but there is need for substantial basic research to discover the character of all the major motivational forces affecting consumers and how these forces function.

The pioneering leadership of the Board of Governors of the Federal Reserve System and of Ralph Young, Director of the Division of Research and Statistics, in sponsoring the Surveys of Consumer Finances has made it possible to test the potential value for predictive purposes of motivational as well as economic data secured from the same consumer units. These surveys have also provided some indication as to what can be expected from basic research on consumer motivation. The Surveys of Consumer Finances have shown that consumers behave differently from what traditional economic assumptions would indicate. For example, data from consumer units show that consumers generally do not tend to increase their purchases of consumer durables when they feel that the prices of these goods are going up: Consumers tend to respond to price increases by feeling that they are "worse off." They see the prices going up, not only on durable goods, but on food and everything else that they buy. This seems to make them feel pessimisitic about their own economic outlook and consequently reluctant to buy durable goods involving any substantial expenditure.

Another illustration relates to the response of consumer units to expected or obtained increases or decreases in income. An appreciable increase in income does not lead at first to an increase in savings, as is generally assumed to be the case. On the contrary, it tends to lead to substantial expenditures by the consumer unit for consumer durables. One of the variables which consistently shows a marked relationship to substantial dissavings—that is, withdrawal from bank deposits, borrowing—is an appreciable increase in income or anticipation of such an increase. If the head of the household himself cannot resist the purchases, his wife cannot.

Similarly, a drop in income, when viewed by the consumer unit as anything but a temporary drop, often does not result in dissaving as is generally assumed. Here again, frequently the opposite behavior occurs; it results in a very marked curtailment of expenditures and a substantial increase in the rate of savings.

These results as well as more general research on motivation lead to the conclusion that the unpredictability of consumer spending can be substantially reduced and the stability of our economy correspondingly increased. Prior to any change in the economic behavior of a consumer there is always a change in the motivational forces influencing his behavior. These forces can be measured by means of the sample survey for all the major segments of the Nation. Moreover, research methods are available to discover how and why these motivational forces change under changing national and international conditions.

I am confident that here again is an important area where basic scientific research can contribute to the well-being of the people of the United States. Scientific research, using methods now available, can discover what the major motivational forces are which are influencing consumer savings and expenditures and how these motivational forces influence consumer expenditures. This information could help the Government to increase the accuracy of predictions of consumer spending by indicating what variables should be measured and how they should be interpreted. More important still, it could indicate the kinds of data which need to be obtained at regular intervals to help guide the Congress and the administration as to courses of action, fiscal and otherwise, which would be likely to encourage consumers at a particular time to increase their spending or their saving. Thus, action could be taken to encourage spending or saving, depending on which is needed, to maintain the stability of our economy at a high level of employment and business activity.

If I may, I should like to suggest to the Joint Committee on the Economic Report that it consider requesting the Board of the National Science Foundation to allocate research funds to support basic research on this problem. This research should seek to discover (1) what the motivational forces are which are most important in influencing consumer decisions to spend or save and (2) how these motivational forces can be altered so as to encourage consumers to spend or to save at a particular time, depending upon which is needed to maintain our economy at a high level of employment, productivity, and purchasing power.

Thank you.

Chairman Wolcott. Thank you. Dr. Likert.

We also have with us as a member of the panel, Mr. Gordon B. Hattersley, vice president of Sears, Roebuck & Co.

STATEMENT OF GORDON B. HATTERSLEY, VICE PRESIDENT, SEARS, ROEBUCK & CO.

Mr. Hattersley. Mr. Chairman and members of the committee.

Various tables of figures have been incorporated in the following presentation. In the interest of brevity, I shall not attempt to read them in detail. However, they are available in the written material I shall leave with the committee.

Retail sales commenced in 1953 at peak levels, but the rate eased as the year progressed, and in the last quarter ran behind 1952.

The national volume of all companies in retail sales combined started out in 1953 as high, but as the year progressed sales ran behind 1952 by eight-tenths of 1 percent.

Sales did not keep pace with disposable personal income, particularly in the final quarter of the year, when the spread between the 2 indexes amounted to 3.3 percent.

The relative slowing down in retail sales versus personal income can be attributed to various causes:

1. Increasing consumer expenditures for services, which rose nearly 8 percent last year over 1952.

The outlook is that services will continue to gain ground relative to sales during 1954 and will further intensify the competition for the consumers' dollar.

2. Increasing amounts of consumer income are required to repay installment debt previously contracted.

Total consumer credit granted in 1953 exceeded 1952 by $1.4 billion but credit repaid rose $2.1 billion.

In the field of consumer goods, excluding automobiles, new sales credit granted was 3 percent below 1952, while repayments was 7.8 percent higher.

In short, the economy has lost a stimulating effect of credit sales in excess of repayments. It appears unlikely that this trend will be reversed in the first half of 1954, and, possibly, for a longer time.

3. Abnormally warm weather in 1953, the fall season of 1953. This, without doubt, curtailed sales of heavyweight clothing and other textiles. Estimates of national retail sales of general merchandise—nondurable goods, excluding foods—developed by our Economic Research Division at Sears, showed a considerably poorer second half than first half, with a swing from 4.2 percent sales increase in the spring to a 5.1-percent increase in the fall.

This is 1 sector of the retail economy that offers a possibility of better comparisons than 1954. Modest increases are possible this spring, and should normal weather prevail in the fall, year-to-year comparisons could look quite favorable in the second half of 1954.

4. Lower cash farm income and drought-affected rural areas. Farmers had a poorer year in 1953, which was reflected in their spending, both in retail establishments and for supplies and equipment.

With rising production costs, their net income declined even more than gross cash farm income. Despite current pessimism, however, there is some ground for viewing 1954 more favorably. Government support levels are now effective in many communities.

While not solving the long-range farm surplus problem, they should give farmers greater income stability in 1954.

The relationship of feeder cattle and hog raisers might fare better this year. A factor not frequently mentioned in selling to the farm market is the decrease in farm population which is down about 20 percent since 1940.

Thus, while the per capital income of farmers has not shrunk as much as aggregate statistics would indicate, it also means that retailers are competing more intensely for a gradually contracting market. That increase in production is the reason for the decrease in farm population; their increases in efficiency have actually outstripped the industrial plant. The high level of savings is frequently mentioned as a bulwark against further decline in retail sales. However, there is considerable difference to retailers between savings as used in broad economic terms, which include such terms and such things as life-insurance premiums, pension-plan payments, repayments on housing, and other indebtedness, versus actual cash available for the purchase of merchandise.

Even in the narrower field of liquid savings, there is room for difference of opinion regarding potential use of such funds.

While the aggregate is high, there is reason to believe that a large portion is concentrated among a relatively small portion of the Nation's spending units.

As compared to prewar dispersion of liquid savings, today is more favorable, but if available statistics are truthworthy, a large proportion of liquid savings is now in the hands of that segment of the population which is already well supplied with automobiles, home furnishings, and appliances, and satisfactory housing. Major stimulus to retail trade over the near term in extra spending by this group does not appear likely.

Sears, Roebuck & Co. frequently is asked if its sales trends have differed greatly in rural versus urban areas. Our internal figures do not provide a made-to-order comparison. However, in comparing sales of our stores located in the larger cities of the Nation, with our stores in medium sized and smaller cities, there is little difference in rate of change in recent months. In our midwestern territory, where many of the smaller stores are very dependent on agricultural income, the performance of the smaller stores has been slightly poorer. Individual stores located in drought-affected areas have, of course, fared considerably worse.

Direct-by-mail sales, which largely come from farm families have not been quite so well sustained. However, there are other factors, in addition to farm income, to take into account, such as the declining farm population, greater competition by retailers, and higher parcel post charges. For example, a package weighing 17 pounds, which in 1948 cost 42 cents to send up to 300 miles, now costs $1.06.

Another question relates to sales in communities experiencing cutbacks in production of either military or civilian goods. Here, too, no clean-cut picture is available.

Our sales in cities listed by the Department of Labor as showing increases in labor supply or reduction in workweek do not differ materially from the average. However, stores located in small communities so listed that could be classified as one-industry towns show up poorer than average.

A major factor in the current period of recessionary tendencies is the matter of excessive inventories. These result from two causes. One is the disappearance of the cushion build up by military orders placed in volume, following the outbreak of war in Korea.

In the effort to avoid shortages of critical materials, manufacturers at various stages of production, and distributors, lengthened their coverage. Now that it is apparent that such protective coverage is not needed, there is a shrinking back all along the line.

It is important to remember that end demand for goods was more stable and the action of the index of production in the next few months should not be used as a measurement of the level of business activity.

A second cause of current high inventories, particularly in finished consumer goods, lies in the high production rates of 1953. Accumulation has been more pronounced at the manufacturing than the retail level, and more in durable goods than in the soft goods. The retailers' inventories do not appear out of line with the current level of sales.

In durable goods, exclusive of automobiles, a considerable reduction in production rates has already taken place from the peak of early 1953. Indications point to a reasonably well balanced picture by mid-1954 so that some improvement in production and employment in these industries may be anticipated by fall 1954.

Price levels and price relationships play an important part in the functioning of the economy. Prices of many raw and semiprocessed goods, particularly in the textile field, have lost all of their post-Korea gains. Many basic metals, however, are higher.

Along with these trends, conversion costs have risen, reflecting higher wage rates.

A good indication of trends in consumer goods prices, exclusive of foods and automobiles, is provided by our general catalogue. Approximately 2,000 items are sampled in each catalog. They are chosen to provide a good cross-section, and permit a running comparison season after season.

Current prices are about, on the average, unchanged from a year ago. Most textile lines have receded appreciably from their post-Korea peaks. Durable goods, however, reflecting higher prices for raw materials and higher wage rates induced by the military program, are now at their highs, at their peaks.

Values in soft goods have improved; values in most durable goods are not as good as formerly. Consumer purchases will probably reflect this situation. There will be pressure upon manufacturers of appliances and metal lines generally, to reduce their selling prices. This will probably be accomplished through high labor productivity, improved manufacturing methods, and some shrinkage in gross profit margins.

Much has been written recently about the problem of distribution and the failure of American distributors to dispose of the output of America's factories.

Little has been said about the efficiency of low-cost production to provide stimulus for distribution of goods. Mass production, resulting in constantly lower unit selling prices for goods, with greater intrinsic built-in value, has been an important factor in the development of this country.

Under conditions of war and near war, inefficiencies have crept into both production and distribution. Unless new major international tensions develop, this cycle appears at an end.

The problem of industry now is to improve efficiency so that through lowered costs, markets can be enlarged. Only in this manner can the improvement in living standards be achieved, and the expanded productive facilities of the country be fully utilized.

The wants of the public are literally endless. We all wish to live better.

Couple the growth in population with cost consciousness in production and distribution, and the saturation point for many products will be raised anew, as has happened time and again in the past.

There are many aspects that cannot be covered in a brief presentation, such as the field of private capital investment, fiscal policy, taxation, foreign trade, and others, and this material has been confined to facets most directly affecting retailers.

Many observers are classifying the present period as an inventory recession comparable to 1948–49, and are expecting a similar rebound.

Now, while current inventories, at the manufacturing level, remain excessive at the moment, there are other factors present which make it questionable that a rebound this fall will be as rapid or as sharp as before. For one thing, many millions of cars, homes, and appliances have been built since 1948–49. At the same time, on the asset side of the ledger is this powerful effect of the elimination of the excess-profits tax in encouraging capital expansion, and many new jobs.

Even though it may be below recent peak levels, 1954 can be a year of high activity and, particularly so, if maximum attention is focused on reduction in costs.

Chairman WOLCOTT. Thank you very much, Mr. Hattersley.

We have also with us Mr. A. W. Zelomek, who will discuss consumer nondurable goods. Mr. Zelomek is from the International Statistical Bureau of New York. Mr. Zelomek.

STATEMENT OF A. W. ZELOMEK, PRESIDENT, INTERNATIONAL STATISTICAL BUREAU, INC.

Mr. ZELOMEK. Mr. Chairman and members of the committee, ladies and gentlemen, I am very happy to have the opportunity to discuss with you my observations on the general business outlook, particularly the outlook for consumers' nondurable goods.

I agree most heartily with most of the general analyses and conclusions of the Economic Report of the President. Let me point out, however, that I do not agree with the prophets of doom about the general business outlook. I am already on record that the present readjustment in our economy will not degenerate into a major depression and that the current decline will not exceed or even equal that of 1948–49. I offer my latest book, No Major Depression in Our Lifetime, which was released last October, for the record.

We are now experiencing a readjustment resulting largely from overproduction in many industries similar to that which occurred in 1948–49 and in 1951–52. This situation has been aggravated somewhat by a declining farm income, a tight money policy during the early part of 1953, a nominal cut in defense spending, a slight decline in spending for new plant and equipment, and a weakening of consumer confidence. Thus far, the readjustment has been within normal bounds, to be expected with the ending of a semiwar economy, and there is nothing on the horizon that would indicate that it will degenerate into a major decline in business activity. On the contrary, a number of already observable factors point to a reversal of many current declining trends in coming months.

This conclusion is premised in large part on the favorable outlook for consumers' expenditures for nondurable goods which should approximate $120.8 billion for the fiscal year ending June 30, which is the same total as the fiscal year ending June 30, 1953.

The importance of this factor in our national economy can be ascertained from its position in relation to gross national product. In 1953 expenditures for nondurable goods comprised one-third of the total gross national product and one-half of total personal expenditures.

At this point, let me touch briefly on the major influences on consumer expenditures for nondurable goods.

First and foremost, is the trend of disposable income and the general financial condition of consumers. Estimates made by my own organization reveal that disposable income during 1954 should show very little change to a very slight increase over 1953. These estimates take into account the reduction of overtime payments and the increase in unemployment. These depressing factors, occurring during the early part of the year, will be offset by tax relief. During the latter part of the year employment will gain.

Also, the public is starting off the year with the highest level of liquid savings on record, in the form of cash and its equivalent. At the same time, its debt is declining. In other words, it has the wherewithal to spend, provided there are sufficient incentives.

The major segment of the nondurable goods industry is food and alcoholic beverages. Prices will be moderately lower than in 1953, and this will have the effect of stimulating buying. In addition, improved packaging and merchandising methods and offerings of many new items in a prepared or semiprepared state will continue to encourage increased spending. In coming years food spending habits, as well as spending habits on travel, transportation, and recreation will not be changed. Thus, the effect of the lower prices will be offset in part by the incentives these prices offer to increased expenditures, so that total expenditures on these goods will decline only fractionally in 1954 from last year's level.

The second major category is clothing and shoes. These industries have been going through a period of intense competition in past months. The result has been the creation of many new and diversified items, attractively styled, at the best values since prewar days. Prices are moderately below those of a year ago. It should be emphasized that the textile apparel industry has again displayed its creative genius and intiative which was so typical of this industry in prewar days. This is also true of manufacturers of boots and shoes.

In addition, replacement needs are sizable because consumer inventories of soft goods are not large. In 1953 the index of expenditures on nondurable goods, adjusted for price change and for population growth, was only moderately above the base years of 1947–49 and lagged behind sales of durables.

The fast pace at which the population is growing is also significant to demand prospects.

A more normal relationship between expenditures on durable and on nondurable goods is, therefore, anticipated. This suggests a slight decline in hard goods volume and an increase in expenditures for various types of apparel, including shoes, for the fiscal year beginning July 1, 1954. For the fiscal year ending June 1954, consumers' nondurable goods expenditures will also be the same as in the previous fiscal year ending June 1953.

With prices slightly lower than last year, dollar volume will remain unchanged to moderately higher than a year ago, whereas unit movement of these goods will show healthy advances.

In view of the current situation within these industries, activity in wholesale markets will go closer to normal levels in the near future and will thus offset some of the declines recorded in production of hard goods.

The textile and apparel as well as the leather and leather products industries are, at the present time, in the throes of readjustment resulting from overproduction during the latter part of 1952 and early 1953 Inventories are being worked off. The same conclusion can be drawn for paperboard, to some extent, but not for paper.

The latest information available indicates that the movement of nondurable goods to consumers has been greater than replacement buying by distributors for several months now. This has been particularly true of textiles and apparel as well as of shoes.

Unfortunately, up-to-date industrywide statistics are not available. However, may I call your attention to available department store data which are fairly good indicators of the trend. At the end of December, the ratio of stocks plus outstanding orders to sales were the lowest since the end of the war. Based on wholesale business in January and preliminary figures on retail sales of the same items, this position has improved further.

What is more important, production of textiles and apparel is being curtailed and, in December 1953, approximated the 1952 low, which was only nominally above the 1949 low. Shoe production has been running at an annual rate of 460 million pairs which compares with an annual offtake by the consumer of about 500 million pairs. Consumer buying has been above production for several months.

In the next 30 to 60 days, distributors will be forced at least to replace every unit of merchandise in the apparel and footwear departments that they sell, even among the staples.

Since production and demand for paper have been much more closely alined, no significant adjustment will take place. There has been some overproduction of paperboard, and this will necessitate some curtailment during the first 6 months of this year.

It seems, therefore, that curtailment has been about adequate, even though no sudden, sharp pickup is indicated for a while longer. The general trend to conservatism will still persist for a short time longer. This is due partly to a feeling of apprehension, which persists, as well as to the squeezed margins of operators

Business confidence will improve as it is realized that the general economy is not on the verge of collapse and that unemployment will not rise to the levels preceding World War II. On the other hand, little relief in profit margins is looked for in view of sustained raw material costs, rigid labor costs, and fixed overheads. Increased volume will be the only solution.

Pressure in this direction will increase and will meet with success.

Thus, the outlook for the consumers' nondurable goods industries is for a steady improvement beginning during the next month or two, or sometime in the second quarter at the latest. The low in production, after seasonal adjustment, that is, for consumers' nondurables, will be reached in the first quarter, and a nominal gain will take place during the second quarter.

This is significant when one considers that the textile, apparel, and leather and leather products industries alone comprise 13.6 percent of the total industrial production index. What is of even greater significance is that these plus other nondurable-goods industries, such as food and beverages, tobacco, paper and allied products, printing and publishing, and chemicals and allied products comprise over 40 percent of the production index. These will constitute a sustaining influence on the index of industrial output in this country in coming months. Incidentally, our forecasts reveal no further marked decline in the overall index from the January level. I thank you.

Chairman WOLCOTT. Thank you, Mr. Zelomek.

On the question of consumer durable goods, we have Mr. George P. Hitchings, manager, economic analysis department of the Ford Motor Co. We are glad to have you with us, Mr. Hitchings, and you may proceed.

STATEMENT OF GEORGE P. HITCHINGS, MANAGER, ECONOMIC ANALYSIS DEPARTMENT, FORD MOTOR CO.

Mr. HITCHINGS. Mr. Chairman, members of the committee, ladies, and gentlemen, I appreciate this opportunity to discuss the outlook for consumer durable-goods expenditures primarily for the year ahead.

The currently lower rate of consumer expenditures for durable goods is part of the downward readjustment in general business activity from the temporary buildup in the latter part of 1952 and the first half of 1953. This buildup was based largely on temporary expansion of durable-goods inventories by business and consumers at a rate that could not be sustained.

Our economy cannot be expected to move ahead at a steady pace year after year when wars create cycles in durable-goods production and construction. The curtailed production of cars, appliances, and housing during World War II built up a backlog of demand for the postwar period. This backlog was largely satisfied for appliances in 1948, but the consumer stock of cars was still not adequate in total and age composition when the Korean war started in 1950. The backlog of demand for cars plus anticipatory buying after Korea pushed consumer purchases of durable goods in 1950 to a record total of $32.4 billion in terms of 1953 price levels. In part, this expenditure was related to a 1.1 million net growth in number of households. A large portion, however, represented increased ownership and replacement of durable goods in existing households.

This rate of expenditure would not have been maintained throughout 1951 and 1952 even if production of cars and appliances had not been curtailed by diversion of materials to armaments and expansion of plant and equipment. Retail sales of cars exceeded 6.4 million in 1950. Consumers also bought greater quantities of other durable goods than could have been maintained in the following year or two. The cutback in production of consumer durables was so sharp, however, that spending for these goods was forced below the free market demand. This was particularly true for cars, as evidenced by the used-car price structure and low dealer stocks for most new cars. Consumer expenditures for durable goods were reduced to $28 billion in 1951 and $27 billion in 1952 (again in terms of 1953 price levels). Increased supplies of steel and nonferrous metals after the steel strike, coupled with the leveling off in defense requirements, permitted an expansion of consumer spending for durables to $30.2 billion in 1953. The rate was even higher in the first half of the year. Because this higher level in 1953 was based on factors not likely to be repeated in 1954, this year's level will probably be between the 1952 and 1953 totals.

The expansion of consumer durable expenditures in 1953 over the 1952 levels occurred almost entirely in the automotive segment. Retail sales of cars rose to more than 5.7 million units compared with only 4.2 million in 1952. Some drop in this area was indicated even if employment and incomes could have continued to rise from the sharply expanded levels of mid-1953. The drop will be accentuated because these employment and income levels were also based on factors not likely to continue in 1954.

New-car sales in 1953 were based upon growth and scrappage rates in the total car stock which still reflected an inadequate supply relative to the number of households and buying power within households. The decline in used-car prices in 1953 undoubtedly stimulated car ownership in households previously without a car and multiple ownership in those households with only one car. Furthermore, the reduced prices on postwar models induced owners of prewar models to make the jump to ownership of postwar cars. Most of these prewar models were then scrapped because there was little market for them. Previous owners of the postwar cars, who make up the bulk of new car buyers, found it easier to obtain the kind of new car that they wanted. Even the sharp declines in the last half of 1953 in the market value of the cars traded in for new cars was not a deterrent because the dealers absorbed a large portion of this decline out of their abnormally high profit margins. This was largely a return to normal marketing conditions as the model year neared a close. Customers naturally expect to pay less for a car toward the end of the model year because the value of such a car later on would be 20 to 25 percent less than the new model.

With the introduction of new models, customers no longer benefit to the same extent from these excessive overallowances on their used cars. This return to normal comes as a shock to the new-car buyer who now finds that his net outlay is perhaps $100–$200 higher. As a result, some of them will revert to being used-car buyers or to trading in less often on a new car.

The market for new cars must always be appraised in terms of the total consumer car stock since the great bulk of new car buyers come from owners of cars that must be sold at a high enough price to encourage the net outlay for a new car. Growth in total car ownership occurs because of (1) increase in the number of households and (2) increase in ownership per household. Household growth currently amounts to about 2 percent a year. Car registrations per household have moved up from the reduced level of 66 per 100 households in mid-1946 to 90 in mid-1953. This does not mean, of course, that 90 percent of the households own a car. It merely represents the total number of cars registered divided by the number of households. Some households own more than one car, and some cars are owned by business firms or were in used-car inventories of car dealers. There will be further growth in ownership per household but it will be closer to the long-run average annual rate since 1929 of 0.8 car per 100 households than the 3.4 rate of the postwar period. It should be remembered that the latter rate was possible only because of the reduced level of ownership caused by the high amount of unemployment until World War II and the shutdown of car production during the war.

Replacement of the large stock of durable goods now held by consumers will provide the bulk of the markets from now on for those durables where the rate of ownership is already high. This is particularly true for cars, where scrappage has been held down in the postwar period by the short supply of cars. Scrappage of cars usually does not begin in quantity until they are 8 years of age. By that time, the market value is normally reduced to about 10 percent of the value of a new car. For those cars requiring costly repairs, therefore, it is more economical to scrap them. Usually the dealer makes the decision to scrap the car because it is traded in on the purchase of another car. If there is not enough market-value left to be worth the reconditioning and selling expense, the dealer will sell the car for junk.

All of the prewar models are at this vulnerable stage today. Only the exceptionally clean cars traded in are resold. Of course, in any one year not all of these cars are traded in or sold to a junk dealer. In mid-1953, there were still slightly more than 11 million of these prewar models registered. If we return to prewar rates of scrappage for cars of this age, the number would be reduced to 7.8 million by mid-1954 and to 5.3 million by mid-1955. This would amount to slightly over 30 percent scrappage of the prewar cars outstanding at the beginning of each of these years. In addition, the 1946–48 models would be starting to enter the scrappage period. At prewar rates of scrappage for cars of this age, the number outstanding would be reduced from 7.7 million in mid-1953 to 7.3 million and to 6.6 million in the following 2 years. With the addition of a small amount of scrappage on 1949 and more recent models, total scrappage at prewar rates would be 4.1 million between the July 1953 car count and the July 1954 count, and would be 3.6 million in the following year. There is good reason to expect scrappage close to prewar rates now that used car prices are down to more normal levels.

The large volume of cars produced during 1949–53 will not reach the vulnerable scrappage period until the latter half of this decade. At that time, replacement volume should be rising to new highs above any previous period. In the meantime, we must rely primarily on elimination of the now ancient prewar models and the 1946–48 models, which were largely a continuation of prewar styling. Much will depend on the ability of the automotive industry to induce customers to trade in for new cars and used cars of model years subsequent to 1948.

This potential scrappage and growth indicates that, under favorable conditions of employment and incomes, it should be possible to sell at retail more than 5 million cars in 1954. Such a total would be close to the 5.3 million average retail sales during the period 1949–53, each year of which was higher than any other year in automotive industry. The bulk of new car buyers would come from present owners of these cars produced in the last 5 years. There is every reason to expect that people now owning cars under 5 years of age will want to stay in this group as long as possible. While these large stocks of younger age cars provide a large trade-in market for new cars, they also can act as a temporary deterrent to new car buying in the event of substantial declines in employment and incomes.

In the 1937–38 recession, for example, consumer buying of cars was cut by about 50 percent from the first half of 1937 to the first half of 1938. For the full year 1938, the drop was nearly 45 percent compared with the year 1937. In 1948–49, consumer stocks of younger-age cars were so low that there was still a ready market for the increased automotive production of 1949 made possible by greater availability of steel. At the present time, however, we are back to the normal situation where consumer purchases of new cars will fluctuate with changes in general business activity and to a greater degree both on the up and on the down side. Other consumer durable goods have been in this position generally ever since they caught up with the backlog of consumer demand in 1948. Because the market for consumer durable goods is so sensitive to downturns in general business activity, manufacturers and distributors of these goods have a great stake in the maintenance of maximum employment and incomes consistent with a stable and growing economy.

The expansion in employment and incomes which took place from the end of the steel strike in 1952 to the middle of 1953 was of a nature, however, that could not be maintained for an extended period of time. Business inventories of durable goods had not been adequate relative to sales volume even before the steel strike because of the great demand for armaments and for plant and equipment. The steel strike reduced these stocks still further. Record steel production after the strike, coupled with a leveling off in defense requirements and increased availability of nonferrous metals, made possible a buildup of business inventories of durable goods and consumer stocks of cars to more adequate levels. Total durable goods production at mid-1953 was 19 percent higher than just prior to the steel strike. Employment in these industries was 10 percent higher and substantial overtime was being worked. The employment, incomes, and profits, created by this expanded production, boosted demand for goods and services generally.

As the backlog of demand for additions to business inventories and to consumer stocks of cars became satisfied, a readjustment back to more normal markets was inevitable. Durable goods manufacturers are now generally drawing down inventories and production has been adjusted downward. If spending for plant and equipment, residential construction, and consumer spending can be maintained close to current levels, as seems likely at the present time, further sharp declines in employment and incomes will not occur. Most of the income loss to date has been in Federal Government tax revenues. Total personal income after taxes and corporate profits after taxes have not declined enough as yet to indicate cutbacks in business and consumer spending beyond those required by adjustment to more normal markets.

The currently slower rate of consumer buying for cars is partly a return to seasonal patterns which always exist in a buyer's market. During 1935–40 when new models were generally introduced in October or early November, consumer buying of new and used cars was at a low rate in January and February. A sharp upsurge occurred in March and the peak for the year was reached in April. About 42 percent of the years' sales were made in the peak period of March–June. It will be impossible to say for sure whether the car market is holding up to expectations until the March–April results are in. The rise from January–February buying rates this year is not likely to equal the 67 percent increase that occurred prewar, partly because many new model introductions were made in December 1953 and January 1954, instead of the October and November dates before the war. Even a modest rise from the January total of 355,000 new car retail sales, however, would be sufficient to continue the current weekly production rate of 107,000 for the industry as a whole. Some production is currently required to increase dealer stocks of a few makes of cars that still are inadequate for the spring market.

In summary, the readjustment so far in consumer buying of cars seems to have been primarily a readjustment to more normal market conditions. For other consumer durables, little readjustment was required because buying in 1953 was not at abnormally high rates. Some curtailment has occurred because of the readjustment in general business activity and employment. If, as seems likely, the worst of the decline in general business activity has already taken place, the outlook for at least a seasonal expansion in consumer expenditures for durable goods is good. For the year as a whole, these expenditures will probably be 5 to 10 percent below the abnormally high rate of 1953, but at least as high as in 1952. Thank you.

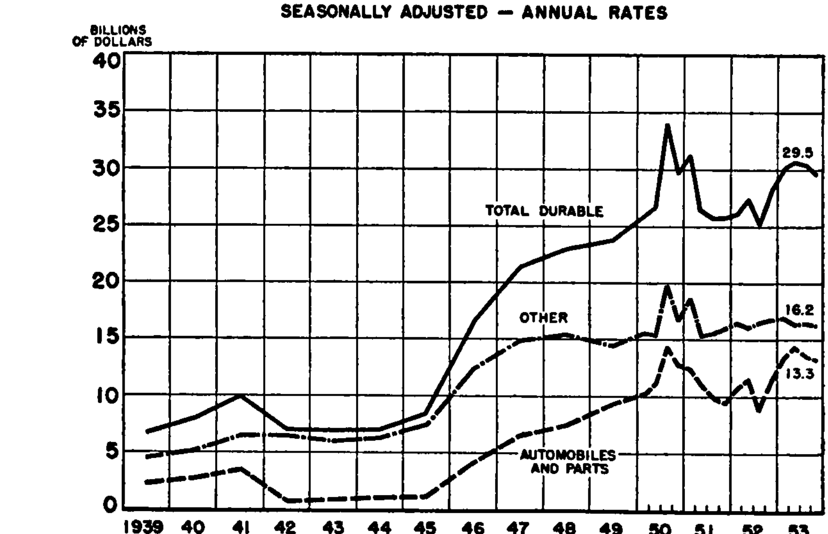
Chairman WOLCOTT. Thank you, Mr. Hitchings.

You have certain charts and tables which I suggest go into the record as part of your discussion, and without objection they may be inserted in the record.

(The charts and tables referred to follow:)

CONSUMERS' DURABLE EXPENDITURES

SEASONALLY ADJUSTED — ANNUAL RATES

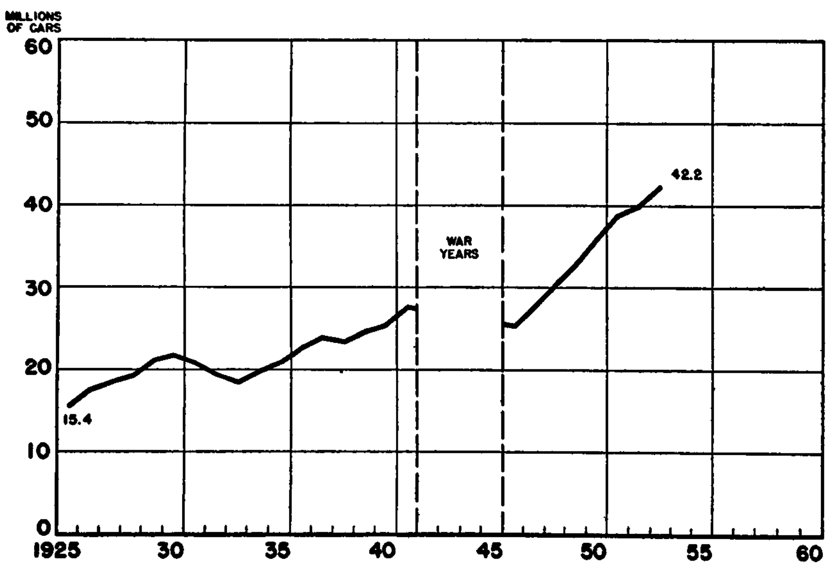


	1939	40	41	42	43	44	45	46	47	48	49	50	51	52	53
TOTAL DURABLES AS % OF PERS. DISP. INCOME	9.5	10.3	10.5	6.1	5.1	4.8	5.6	10.4	12.6	12.2	12.7	14.2	12.1	11.4	12.2
AUTOS AND PARTS AS %	3.0	3.6	3.6	.6	.6	.6	.7	2.6	3.9	4.0	5.0	6.0	4.8	4.4	5.5
OTHER DURABLES AS %	6.5	6.7	6.9	5.5	4.5	4.2	4.9	7.8	8.7	8.2	7.7	8.2	7.3	6.9	6.7

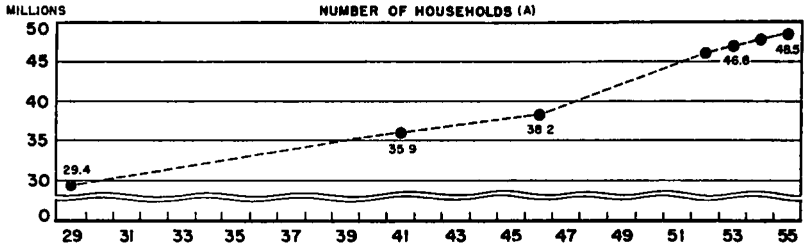
Used car prices as of Dec. 1

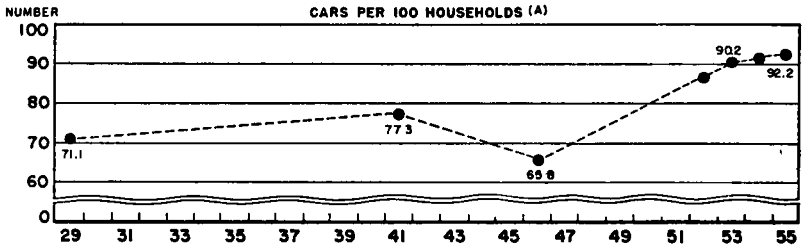
Age of car	Retail prices				Wholesale auction prices		
	1940	1951	1952	1953	1951	1952	1953
0	$720	$2,120	$2,445	$2,298	$1,837	$2,011	$1,816
1	564	1,676	1,825	1,685	1,356	1,476	1,122
2	452	1,397	1,484	1,302	1,080	1,182	827
3	345	1,144	1,218	1,026	831	927	637
4	261	954	968	826	695	677	463
5	178	833	799	621	603	566	310
6	127		691	501		456	254
7	98			423			216
8	76						
9		421			264		
10		384	329		247		
11			298	221			
12				202			

TOTAL PASSENGER CARS IN USE IN THE UNITED STATES



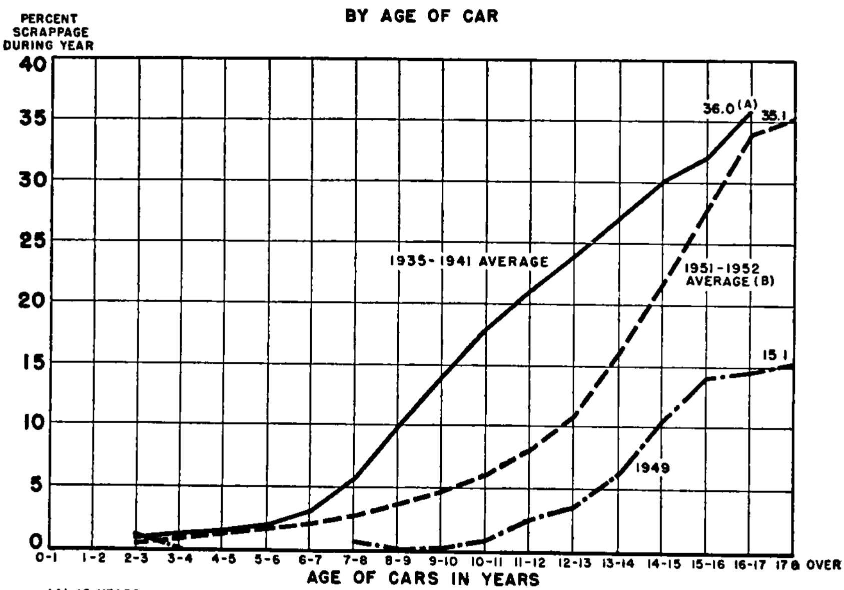
FACTORS AFFECTING GROWTH OF CAR OWNERSHIP





(A) AS OF APRIL 1; ESTIMATED FOR 1953, 1954 AND 1955

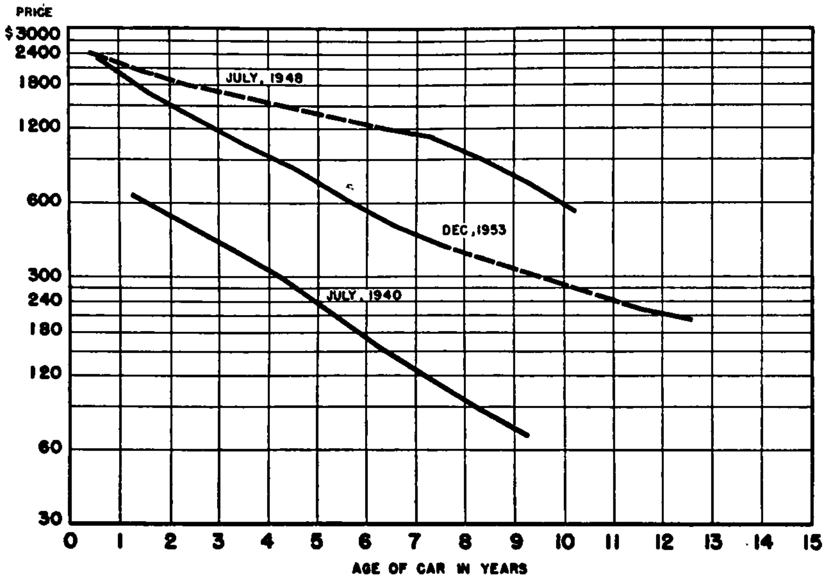
ANNUAL SCRAPPAGE RATE
BY AGE OF CAR



(A) 16 YEARS AND OVER.
(B) BASED ON 1951-1952 EXPERIENCE ON A SMOOTH BASIS.

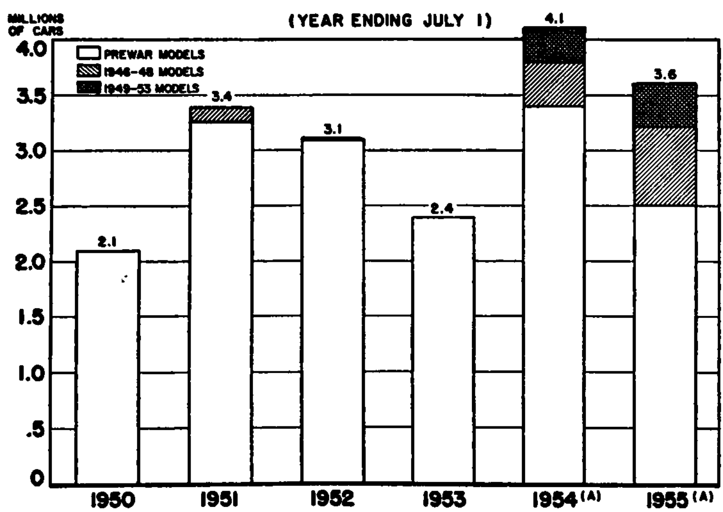
USED CAR PRICE STRUCTURE

PREWAR AND POSTWAR



SCRAPPAGE OF PASSENGER CARS PREWAR AND POSTWAR MODELS

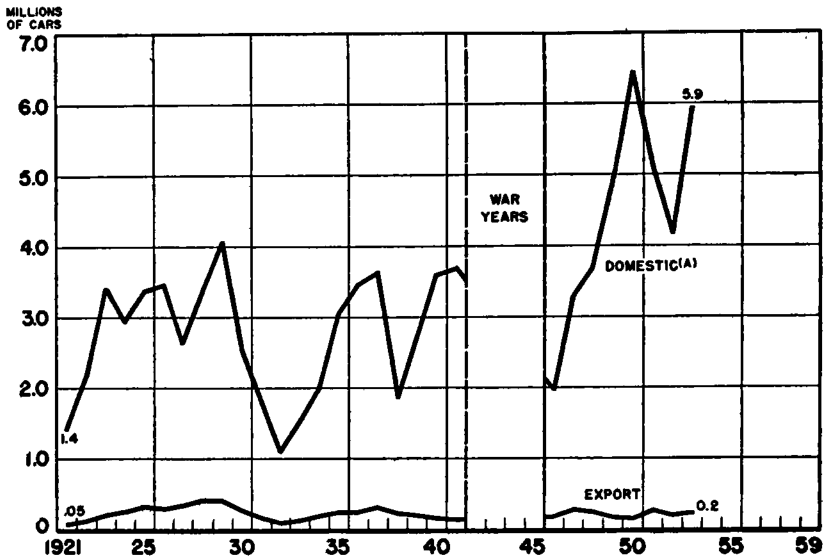
(YEAR ENDING JULY 1)



PREWAR MODELS:	1950	1951	1952	1953	1954 (A)	1955 (A)
NUMBER AT JULY 1 (MILLIONS)	19.9	16.6	13.5	11.2	7.8	5.3
% SCRAPPED DURING YEAR	9.6%	16.4%	18.6%	17.4%	30.4%	31.9%

(A) PROJECTED

FACTORY SALES OF PASSENGER CARS FROM U. S. PLANTS



(A) EXCLUDES SALES TO ALL GOVERNMENT AGENCIES FROM 1946 FORWARD.

AGE DISTRIBUTION OF PASSENGER CARS

AS OF JULY 1

(MILLIONS OF CARS)

AGE GROUP	1941		1946	1947	1948	1949	1950	1951	1952	1953	(A) 1954
UNDER 1 YEAR	3 2		0.4	1 4	1.7	2 6	3 0	2 9	1 8	2 9	
2	6 4			3 4	4 8	5 6	7 9	9 0	7 2	6 6	8 4
3	8 8				6 8	8 7	11 0	14 0	13 4	12 1	12 1
4	10 5					10 7	14 0	16 9	18.4	18 3	17 5
5	14 0		1 4				16 0	19 9	21 3	23.3	23.6
6	17 1		5 5	4 5				21 9	24 3	26.2	28.5
7	19.3		8 7	8 6	7 8				26 2	29 1	31 3
8	20.9		11 2	11 7	11 8	11 7				31.0	34.1
9	22.0		12 9	14 1	14 9	15 7	17.0				35.8
10	22 7		16 3	15 7	17.3	18.8	21.0	22.9			
TOTAL CARS	22.7		25.1	27.5	30.0	32 7	35.9	38.5	39.8	42.2	43.6

(A) ESTIMATE

Percentage distribution of passenger cars by age as of July 1 [1]

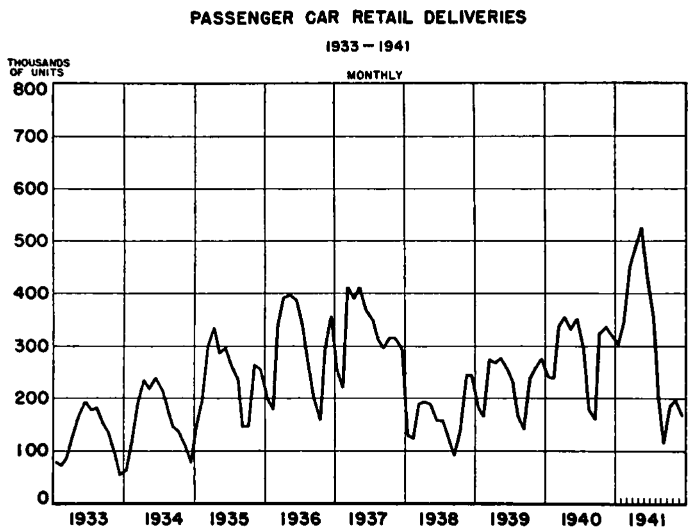
Age group	1941	1950	1951	1952	1953	1954
Under 1 year	11.7	8.3	7 4	4.6	16 9	----------
2	22 9	22.1	23 3	18.2	15.7	19 2
3	31 6	30.5	36 2	33 7	28.6	27.7
4	37.9	39.0	43.9	46.2	43.4	40.1
5	50 4	44.7	51.7	53.6	55.1	54.2
6	61.9	----------	56.8	61.1	62.1	65.4
7	69.6	----------	----------	65.9	69.0	71.9
8	75.4	----------	----------	----------	73.5	78 2
9	79.4	47.4	----------	----------	----------	82.1
10	82.0	58 4	59.3	----------	----------	----------
Total	100.0	100.0	100.0	100.0	100.0	100.0

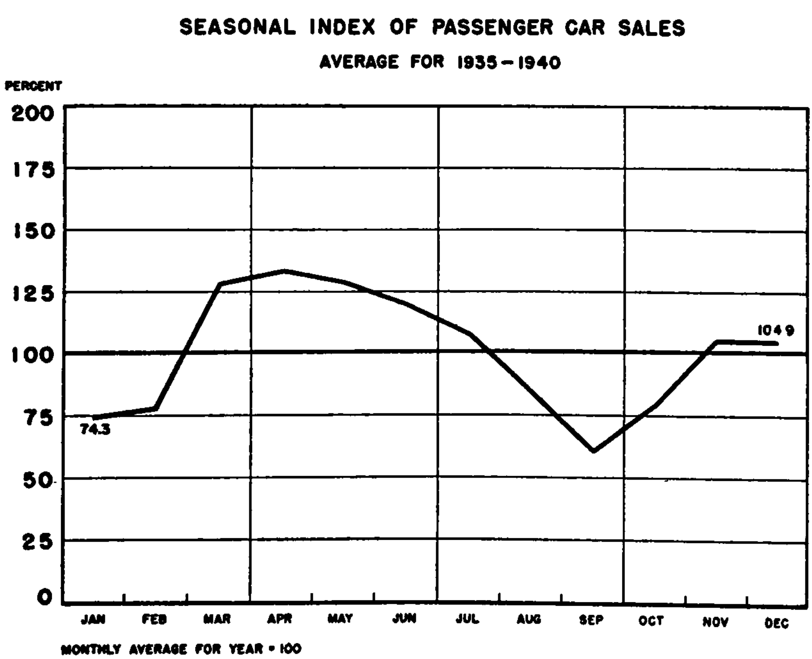
[1] Projection based on prewar scrappage rates and new-car registrations of 5½ million in year ending July 1, 1954.

Comparative declines in selected economic indicators, 1929–30, 1937–38, 1948–49

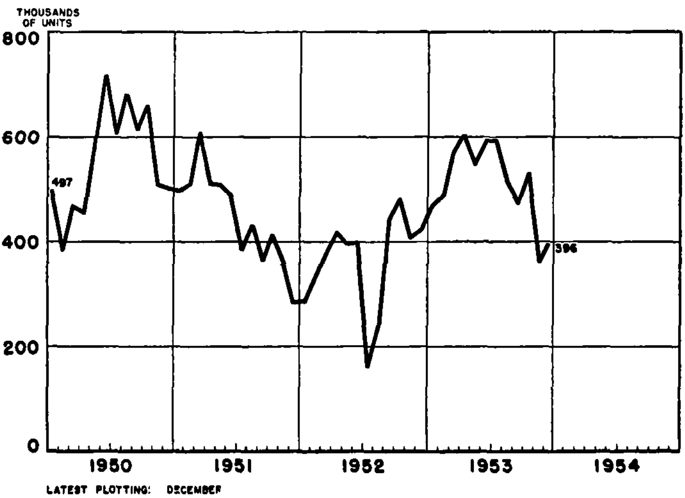
[Percent change]

	1929–30	1937–38	1948–49
Gross national product (1939 dollars)	−9.1	−4.4	+0.3
Personal disposable income (1939 dollars)	−8.4	−6.1	+0.6
Nonagricultural employment	−6.1	−5.9	−2.5
Industrial production	−17.3	−21.2	−8.3
Domestic factory sales:			
Cars	−36.6	−50.0	+35.9
Trucks	−28.3	−49 0	−14.8





U.S. PASSENGER CAR PRODUCTION



We have with us this morning on the question of taxation and consumption, Mr. Gerhard Colm, chief economist for the National Planning Association.

Mr. Colm, we are very glad to have you with us, and we will be glad to have you proceed.

STATEMENT OF GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

Mr. Colm. Mr. Chairman and members of the committee, I appreciate very much the opportunity to discuss before this committee certain aspects of the Economic Report of the President. I might mention that I will express my personal views, not necessarily those of the National Planning Association, and my presentation will be, fortunately, very much briefer than the document you have in your hands.

The President's Economic Report presents a piece of excellent workmanship in economics and statistics. It is a document of high caliber. If I make any critical remarks, they are intended to be constructive and they are offered in the spirit of professional debate.

I have been asked to deal particularly with the influences which the tax recommendations in the report may have on consumption. Before saying anything about taxes, I should first say a few words about the economic outlook and the role of consumption in the economic outlook, for that should be the basis for analyzing the tax recommendations.

The report characterizes the present situation as a period of inventory adjustment. That has been expressed by virtually every participant in this panel.

Indeed, the figures show an extraordinary increase in inventories early in 1953 and a cessation of inventory accumulation and even some liquidation later in the year. This seems to indicate that the adjustment is well underway, and possibly near completion. From this, the report, and some of the panel speakers derive their optimistic outlook.

In my opinion, fluctuations in inventories are symptoms, not causes, of the changes in the pace of activity. Last year's inventory accumulation indicated that productive capacity and output had increased by more than consumers were willing or able to buy at existing prices. That suggests some maladjustments in the economy. The report, and I take it this whole panel discussion, assumes that national security expenditures can be reduced, and I am happy indeed if the international and military situation are such that this can be safely done.

The continuation of economic growth in a period of transition from rising to declining national security activities need not create a depression, but it does require adjustments. It requires adjustments in the relationship of consumption, investments, and Government purchases.

I only need to remind you that national security expenditures have been running at around 15 percent of the gross national product recently, and are projected for a few years from now to something like 9 or 10 percent.

Even the successful liquidation of excessive inventories in the near future will not mean that the necessary adjustment has been achieved. The report deals exclusively with the very short-run outlook, and also with the long-run opportunities for growth in the American economy but it fails to deal with what may lie inbetween.

The report seems very optimistic about the outlook for next year. Personal income and consumer expenditures are expected to continue at a very high level, and business investment is expected to decline only moderately. Altogether, the prospect is for a level of activity only somewhat below that of last year. Indeed, it is reassuring that 1954 may well be the second best year in our history.

However, should we use only the past as our standard? The report emphasizes in excellent language right at the beginning that "our economic goal is an increasing national income shared equitably among those who contribute to its growth."

If we take the objective of growth seriously, and I think we ought to take it seriously, then we cannot be too happy if the outlook is for a level of economic activity only somewhat below that of last year. We must be guided by the necessities of the future rather than by the accomplishments of the past. Guided by the necessities of the future, we cannot be satisfied with an outlook which promises at best the maintenance of consumer spending at the level of the last year.

There are, as a matter of fact, two reason why personal consumption must go up if we are to have continued economic expansion.

First, consumption must go up in line with the growth of the economy as a whole. With some increase in the labor force and the continued increase in labor productivity, we will be able to produce in the fiscal year 1955 about $15 billion more of goods and services than were produced at the end of last year, taking that as an annual rate.

This estimate takes into account the fact that some people are voluntarily withdrawing from the labor force, and that less overtime will be worked. Nevertheless, unless we produce more than we have produced in the past, we will run into considerable unemployment or underemployment.

Second, consumption should increase more than in proportion to the growth of the economy as a whole. Purchases of the Federal Government will be down by about $6 to $7 billion, according to the estimates made by the joint committee staff. State and local governments, on the other hand, will probably increase their expenditures by $1 or $2 billion. This would leave us with a needed increase of about $20 billion in private purchases, estimated at current prices, in order to achieve the desirable economic growth. That means $20 billion increase in either private investment outlays or consumer expenditures or both together.

It is difficult to say how much business investment might increase under healthy economic conditions. Under the stimulus of the build-up phase of the defense program investment has been very high. As that stimulus is coming to an end, investment in defense-related industries may tend to fall. On the other hand, there are many indications that investment in nondefense industries will continue high, particularly as older plants are modernized and recent technological advances put into use. The program for easier terms for home finance may favorably affect residential construction. The most optimistic assumption would be that business investments in the fiscal year 1955 will not be lower than they have been running in the 4th quarter in 1953. From this it would follow that consumption would have to increase by about $20 billion if the economy is to operate at a full employment level. These estimates are certainly subject to question but, rough as they are, they drive one to the conclusion that we should not be satisfied if consumer income and expenditure are to remain at the level of last year.

What then are the tax policies which have been adopted or are being recommended for promoting conditions under which consumption will expand? During these hearings it has been said that the best way to increase consumption is to increase production. Increased production results in an increase in wages and all other incomes derived from production.

With that I do not disagree. However, consumption and production are related, like chickens and eggs. This was written before I read about the role the geese have been playing in these hearings; I must apologize.

It is a moot question which comes first. Production will not be stepped up unless producers expect an increase in their markets. Even a tax incentive for stepping up production will be ineffective unless the producer is confident that he will find consumers for his products.

It is true that beginning January 1 personal taxes were reduced by about $3 billion, but a large part of this tax relief was offset by an increase of $1.3 billion in social-security contributions. Unfortunately, this virtually wiped out most of the increase in disposable income for the people in the lower income brackets. These are the brackets where an increase in disposable income would raise consumption expenditures almost dollar for dollar.

Some further tax relief has been proposed in lieu of the reductions which, according to present law, would become effective on April 1. The proposals which are summarized in the economic report would, I understand, reduce tax receipts by about $1 billion in fiscal year 1955.

Of this, about $200 to $300 million might be regarded as additional relief to middle- and low-income consumers. More than $600 million reduction in tax revenue would result from relief of the so-called "double taxation of dividends" and I put that in quotation marks— and the change in the method of computing depreciation.

The net addition to disposable incomes in the middle and lower income brackets resulting from both the tax reduction which became effective on January 1, plus the additional reductions included in the administration's program, would amount to about $2 billion.

In pointing out that tax relief for consumer incomes will make only a moderate contribution to the increase in consumption necessary for economic growth, I do not want to criticize any of the tax proposals that have been made.

Taken by themselves, I personally think there is some merit in each of these proposals. Some are excellent as, for instance, the proposed more liberal treatments of outlays for research or the more liberal carryback provisions.

The question which we have to consider is not whether these are or are not desirable changes, but which tax reductions should have highest priority in the present situation.

The President's report emphasizes the need to stimulate business expansion and investments in equity capital. It fails to demonstrate convincingly, however, that present taxes are actually obstructing business expansion or that the proposed changes would substantially increase investment under present conditions. In fact, it points out that business investments have been very high in the recent past in spite of the high level of taxes. The report explains this by saying that there is a difference between business investment in periods of inflation, and business investment in a period of a stabilized price level. However, it seems that we have had relative price stability since the spring of 1951. Expansion reached its highest rate after that time.

Therefore, it seems to me that the report fails to give adequate consideration to reduction of taxes which affect consumer income, such as the individual income tax and payroll taxes; and those which affect costs and prices, such as the transportation tax and other excises.

We should not forget that, by and large, business cannot be expected to expand unless markets are growing. It is true some forward-looking businessmen are not discouraged by minor fluctuations in the market, and Mr. Keezer emphasized that quite correctly yesterday. One of the most encouraging aspects of the present scene is the tendency of some business firms to orient their investment programs in the light of longer-run market prospects rather than the short-run fluctuation. Nevertheless this does not alter the fundamental relationship between expansion and modernization of business, on the one hand, expansion of consumer markets, on the other.

While obstacles which stand in the way of desirable business expansion should be removed, we should not forget that nothing stimulates expansion as much as growing markets.

Predictions about very short-run fluctuations which are largely determined by shifts in inventory accumulation are very uncertain. **Tax policy is an inadequate instrument for offsetting these fluctuations.**

We should be more concerned with the next 2 or 3 years than with the next 6 months. Assuming no need to increase defense spending, I believe that increasing the amount and ratio of consumption will be one of our major tasks. Here, it seems to me, tax policy can be of great help. Thank you very much.

Chairman WOLCOTT. Thank you very much, Mr. Colm.

On the general question and, perhaps, in summary, we have Mrs. Aryness Wickens, Deputy Commissioner of Labor Statistics of the Department of Labor.

Mrs. Wickens, we are very glad to have you here.

STATEMENT OF MRS. ARYNESS JOY WICKENS, DEPUTY COMMISSIONER OF LABOR STATISTICS, UNITED STATES DEPARTMENT OF LABOR

Mrs. WICKENS. Mr. Chairman and members of the committee, ladies and gentlemen, in order to save the time of the committee, if I may, I will submit my statement for the record and summarize, commenting as I go along, on some of the observations made by the other members of the panel.

I will refer, as I talk, to the three charts which are appended to my statement.

(The statement and charts referred to follow:)

STATEMENT BY ARYNESS JOY WICKENS, DEPUTY COMMISSIONER OF LABOR STATISTICS, ON RECENT DEVELOPMENTS IN CONSUMERS' EXPENDITURES

In the prevailing economic climate, where goods are plentiful and price changes are not radical in either direction, the volume of consumer buying depends largely upon ability to buy. This may come from current income, minus fixed expenses such as past debts, or from accumulated savings or from use of credit. I should like to concentrate today upon current income, since other members of the panel are more expert than I on the other factors which affect consumer spending.

The reports before you show that of the record gross national product of $367 billion produced in the United States in 1953, nearly two-thirds consisted of personal-consumption expenditures. The amount of disposable personal income—i. e., the amount available for consumers to spend after taxes—reached its peak in the third quarter of 1953 and in the last quarter declined slightly but was, nevertheless, higher than in any other quarter. The decline came in wage and salary income, which fell back to the level of the second quarter of 1953. Agricultural income, after a 2-year slide, picked up somewhat in the fourth quarter. Throughout the year, income from rents, interest, and dividends increased, and income from unincorporated businesses on the whole showed little change.

Since the recent declines have been concentrated in wages and salaries, which form, roughly, two-thirds of disposable personal income, I want to consider this segment in some detail. Wage and salary income was about $5 billion lower, on a seasonally adjusted annual-rate basis, by the end of 1953 than at its extraordinarily high midyear peak. This decline was concentrated almost wholly in manufacturing and to a limited extent in transportation and the Federal Government. Payrolls in construction, trade, the service industries, and the utilities all were at a high level, and most increased during the course of the year. As we appraise the outlook for the year ahead, the relatively stable elements of the economy should not be overlooked. The manufacturing sector, which employed about 17 million wage and salaried workers in 1953, experienced the greatest changes, and transportation and public-utility groups, which also are fairly volatile, last year employed about 4 million. Together these two groupings account for only half of total private nonagricultural employment of wage and salaried workers, and it is in the other half that we find the greatest stability.

The most important element in the 1953 decline in personal income was the reduction in the number of workers employed in manufacturing, which amounted to 600,000 between mid-1953 and December 1953. Employment on the railroads also fell somewhat more than is usual for the time of year.

There was also curtailment of working time in manufacturing. Hours worked per week went down from about 41 on the average for factory production workers at the beginning of 1953 to 40.2 in December, or about 1 hour a week. In January there was a further decline—partly seasonal—to 39.4. However, there is still considerable overtime being worked in many industries.

For those factory workers who remained on the job this reduction in hours in 1953 was offset by higher rates of pay. Average hourly earnings, excluding premium pay for overtime, were about 9 cents an hour higher at the end of the year than a year earlier. In consequence, weekly earnings in December 1953 averaged nearly $72—about the same as the high level which prevailed throughout the year. (Chart 1.) Wage rates also rose in a number of the nonmanufacturing industries—notably construction, the utilities, and trade—and their weekly pay either increased or continued at very high levels.

Now for the outlook for 1954:

Let us first consider rates of pay. We start this year with a new set of social security and income tax deductions. How do they affect take-home pay for the average factory worker—that is, the man earning about $72 a week in December 1953? The Bureau of Labor Statistics publishes regularly a set of statistics called net spendable earnings, in which it takes average factory pay and caluculates tax deductions for a worker with no dependents and one with three dependents, assuming no other sources of income. The effect of the two Federal tax changes effective January 1, 1954, is to leave the average pay envelope of the average factory wage earner with three dependents virtually unchanged. The worker with no dependents, who has therefore been paying higher Federal income taxes, will have a slight increase in average weekly take-home pay of somewhat under $1 a week.

During 1954 we can expect some further increases in hourly rates of pay. Even in the 1949 inventory recession, when employment and hours both declined, average hourly earnings in factories, excluding premium pay for overtime, rose by approximately 2 cents between September 1948 and the end of 1949. There were also general wage increases in a number of other industries, such as the railroads, the public utilities, and construction.

It is, of course, obvious that wage bargaining in this year will be conditioned by the general tone of the economy. Most major wage agreements expire or can be reopened in 1954. Railroad contracts are now under discussion, and in recent weeks some major settlements have been reached at higher rates. In some of the contracts that are not reopenable in 1954, notably automobiles and farm equipment, there is an annual improvement factor—usually of 4 or 5 cents an hour—which will go into effect automatically. If substantial stability in the general level of consumer prices continues, presure for wage increases on a cost-of-living basis will not arise and formal escalator clauses will produce, at most, small changes in either direction.

Next, consider the length of the workweek and the prospects for employment, that is, the total number of man-hours to be worked. I do not wish to make any specific forecast of the level of industrial activity in 1954. However, in order to get an idea of the size of the problem as it affects spendable incomes, let us examine what the overall drop would amount to if this inventory recession should prove to be of the same general magnitude as that of 1948–49.

At that time the factory workweek dropped to about 39 hours on the average. Today this would mean a further loss, from the level at the end of 1953, of about 1 hour a week, and a further drop in payrolls of factory production workers of $1.7 billion a year.

Factory employment at that time went down 9 percent from the peak in mid-1948 to the bottom a year later. Applying the same percentage to the 1953 peak, would result in a further drop of some 700,000 workers from December 1953, and a consequent loss of another $2.5 billion of factory payroll. Likewise, there was a drop of 6 percent in employment in the transportation and public utilities industries, and a similar drop during the current period would cause a decline of $0.6 billion.

The total hypothetical loss, assuming no offsets and comparative stability elsewhere in the economy, would therefore be nearly $5 billion—on a seasonally adjusted annual rate basis—from the December 1953 level.

Judging from the 1949 experience, there are two major types of offsets likely. If factory wages, exclusive of overtime, were to rise by the same amount as in 1949, that is 2 cents an hour, the total payroll of production workers would rise by $0.6 billion a year. In addition, there will be an increase in Government transfer payments arising out of the unemployment compensation and social-security systems; in 1949, this rise amounted to $1 billion. The net further loss likely from a recession of the type we have assumed is therefore some $3.5 billion, annual rate, in addition to the $5 billion loss which had already occurred in 1953.

The sum of these changes, from the peak in mid-1953 to the hypothetical bottom in 1954, would therefore be a loss at an annual rate of some $8 to $9 billion, or 4 percent. Such a drop would bring labor income back down to the figures of late 1952. This is approximately the same rate of drop as occurred in 1948–49, when both the annual average and the low point for 1949 were higher than for any period before the spring of 1948.

I have used these illustrations, not to infer that the experience of 1948–49 is going to be repeated, but instead to demonstrate the effect of an inventory recession which largely affects manufacturing and related activities and which comes to a halt while construction and trade are still holding steady at high levels.

PRICES OF CONSUMERS' GOODS AND SERVICES

In considering the ability of consumers to buy, current income plus various assets and credits are an important factor, but not the only one; the cost of the goods and services purchased is the other side of the coin.

In the past year, prices of consumer goods and services for city families on the whole have held quite stable. The cost of a typical market basket of foods in December 1953 was 1.3 percent lower than at the close of 1952, following the decline in farm prices. Manufacturers' prices for nonfood commodities have been extremely stable for more than a year. However, rents and charges for most services continued to rise throughout the year. Medical and dental care, hospital care, laundry and dry-cleaning services, local transit fares, newspapers and periodicals, beauty and barber shop services, have all gradually edged upward.

If the prices in the Consumer Price Index of the Bureau of Labor Statistics are classified into three groups—commodities, rents, and services—you will see that whereas commodity prices have more than doubled since the outbreak of the war in Europe in 1939, rents for city dwellings have increased by about 50 percent, and the cost of services has risen by about 75 percent (chart 2). If we take as reference points the 3 postwar years, 1947–49, prices of services and rents have risen somewhat more rapidly than commodities (chart 3). Since the war's end, rents and services have been slowly catching up. If history is any guide, they still have quite a bit of catching up to do since they typically lag behind the movement of prices of commodities, which are very much more responsive to changing market conditions.

Looking forward in 1954, there appears to be no reason to anticipate any marked change in the general level of prices of consumer goods and services. We must expect some ups and downs in the cost of the family budget from month to month, in response to particular market situations. Charges for services and rents can be expected to continue to edge up slowly, while for most commodities, the supply situation is likely to be the dominant force in 1954.

The Department of Agriculture, for example, is forecasting that the total food bill for this year will not be significantly different from that of 1953. The prices of individual commodities—such as beef, pork, potatoes, oranges, and vegetables—are certain to change from month to month, depending upon the supply. As a case in point, wholesale prices of meat have advanced 7 percent from December to January because of seasonally smaller marketings of cattle and hogs. There have already been some increases in retail prices in consequence. Such short-run changes are always expected, and they should not be overemphasized.

For apparel, house furnishings, and the consumer durable goods, seasonal prices have been somewhat lower than a year ago. But the only drastic cuts have been in sales to clear out accumulated inventories. This has been going on for some time in electrical appliances, radio and television sets, automobiles, as well as for apparel and house furnishings. If, in fact, inventories of producers and of distributors are largely readjusted by spring or summer, there should not be a great deal of change in the price level for these types of goods this year.

The importance of price stability to purchasing in 1954 is that if consumers do not expect any great price changes to occur, there will be no rush to build up personal inventories, as in 1950, but neither will there be any tendency to delay needed purchases in anticipation of lower prices.

It is well to remember that there is now less flexibility in costs of production and distribution of consumer goods than there was in the years before the war, and that the limits within which costs, and hence prices, can change in the short run are fairly narrow. In the long run, changes in technology and improved productivity may bring them down, but the higher costs of doing business are built into the business structure, including larger capital costs for plant and equipment, higher wages, and higher transportation costs. Some of these higher costs are reflected in improved service, better packaging, and better quality, and some merely represent higher dollar tags in line with the general increase in the price level. It is also well to remember that more costs are built into retail prices than was the case in the 1920's, when much processing of food and many more services were performed at home. Today these are bought on the market.

Given the ability to buy, the question then becomes one of consumers' need to buy and willingness to buy. It is easier to estimate possible declines in incomes, as I did earlier, than to measure their effect upon consumer spending. In 1949 there was a drop in the seasonably adjusted annual rate of consumer expenditures of only $1 billion, concentrated in one quarter, despite a sharp decline in disposable personal income which extended over a year. Forces operating to maintain consumer spending at that time were the willingness to cut into savings and the existence of a large backlog of demand. This demand came from families which had to postpone purchases of various types of goods during the war, and from the relatively great number of families setting up households.

Moreover, in considering the adjustment of spending to lower income, Bureau of Labor Statistics studies have shown that consumers do not adjust their expenditures immediately to changes in income, when there is no change in the price level. In particular, they do not change their manner of spending if the change in income is regarded as temporary. If drastic declines in real income resulting from extensive unemployment, wartime, and other emergencies continue over a considerable period of time, consumers do eventually reduce their living standards.

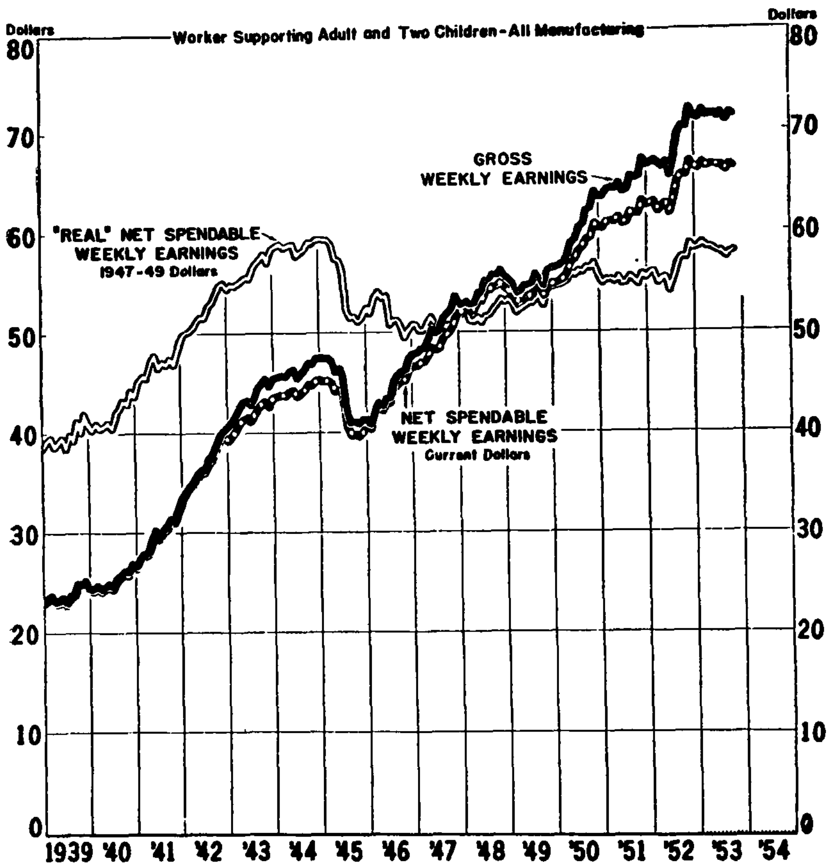
When income rises, the family continues for a time to live in the same house, to buy about the same kinds of food and of clothing. It is only after some time has elapsed that it adjusts to a higher level of income.

This stickiness in the spending pattern which is typical of rising incomes also occurs as income diminishes. If, for example, there is a layoff with an anticipated early return to work, it is unlikely that there would be any marked change in the family's pattern of spending except for the making of heavy new commitments. The essentials are paid for first—the rent and utility bills, food, transportation to and from work and school—and the family keeps up its payments on insurance and on installment purchases as long as possible. The family still buys much the same kind of food it usually eats, and gets ice cream cones for the children, goes to the movies, and purchases newspapers, but in a somewhat less free way. It will postpone purchases of durable goods, uses credit in the short term for those things which can be handled in that fashion, and uses its savings or borrows from friends and relatives to sustain its customary way of living.

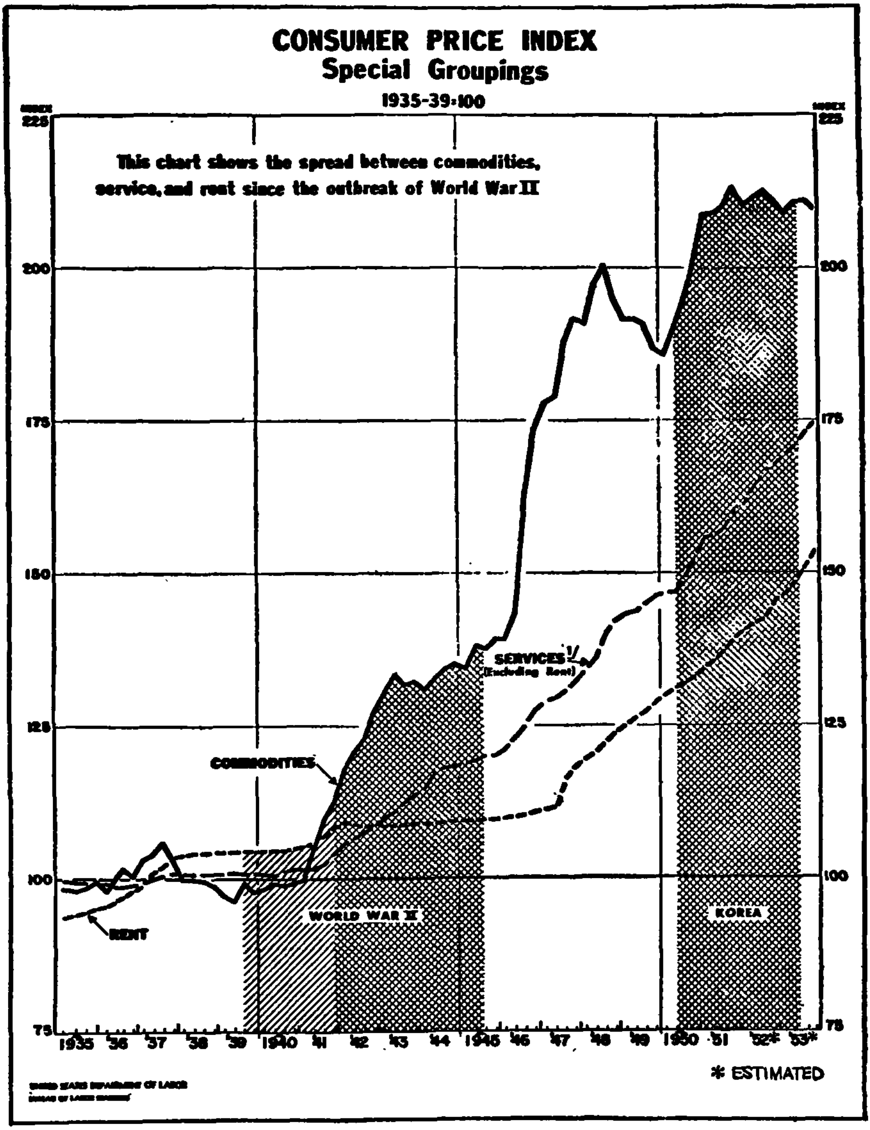
The pattern of consumer buying can extend as much as one year into the future based on the influence of incomes and spending patterns of the year before. The principal forces which historically have been able to break this pattern are major changes in the economic climate, such as an anticipated shortage or surplus of goods, or widespread fear of sustained unemployment. Unless we expect one of these powerful forces to appear this year, we could not anticipate any great change in the overall pattern of family buying.

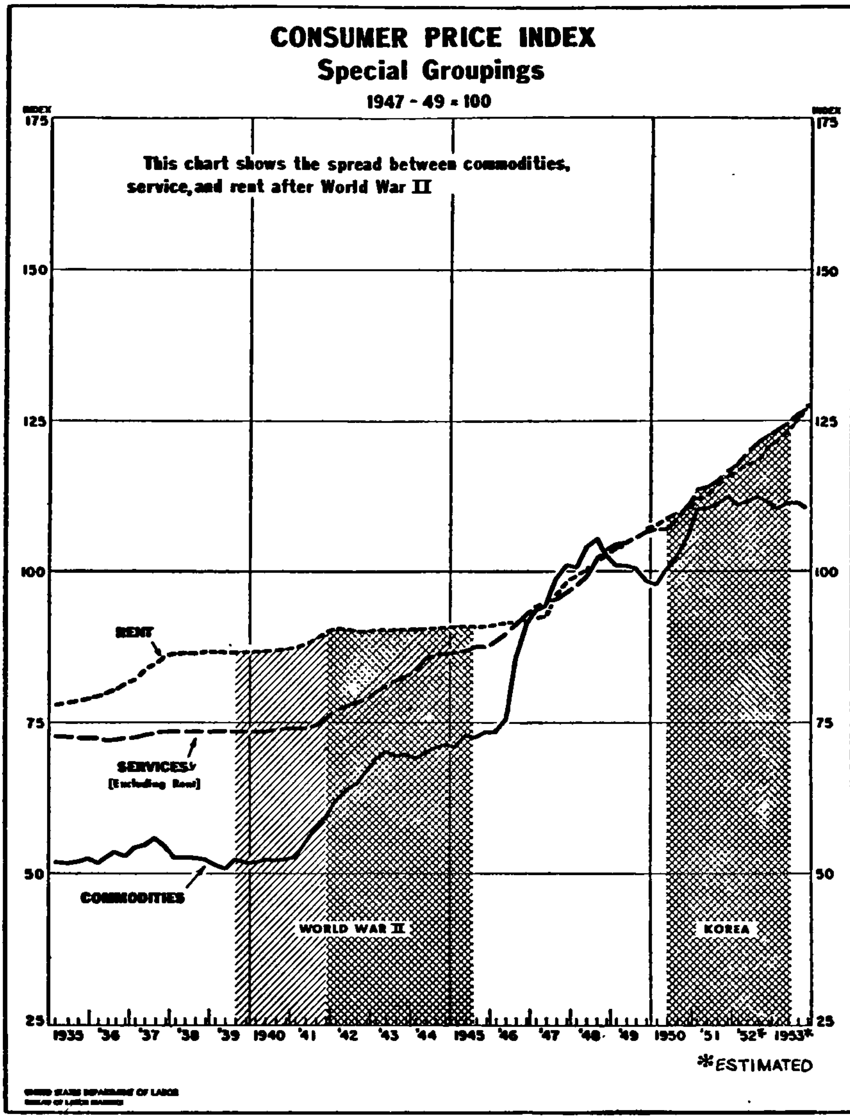
Another consideration to take into account in appraising consumer buying this year is the concentration of reductions in employment and income. Whenever certain areas and certain types of workers are hit especially hard, and where the outlook for employment is not good, there will be a sharp cut in expenditures. If those areas are not too numerous, the effects may not be readily discernible in the overall national totals, but for the people who are affected, the situation is very serious. Thus, certain coal mining and textile areas affected by shutdowns are among those in which retail buying has declined substantially; in other areas meanwhile, where employment is well sustained, consumer buying has continued at a high level. I am sure none of us wishes to underestimate the effects upon certain communities and certain families of the recent declines in employment. They are very severe indeed.

GROSS AND NET SPENDABLE WEEKLY EARNINGS
COMPARED WITH REAL NET SPENDABLE EARNINGS EXPRESSED IN 1947-49 DOLLARS



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS


CONSUMER PRICE INDEX
Special Groupings
1935-39=100
INDEX
This chart shows the spread between commodities, service, and rent since the outbreak of World War II
225
200
175
150
125
100
75
SERVICES 1/ (Excluding Rent)
COMMODITIES
RENT
WORLD WAR II
KOREA
1935 '36 '37 '38 '39 1940 '41 '42 '43 '44 1945 '46 '47 '48 '49 1950 '51 '52* '53*
* ESTIMATED



I should like today to discuss three points which have been brought out in the panel discussion: First, the sources of consumer's income available for spending in quantitative terms, the course of prices of consumer goods in the year 1954 as a factor in volume; and, finally, some factors affecting consumers' patterns of spending along the lines also discussed by Mr. Likert.

One of the panelists stated that total personal income, after taxes, has not been reduced enough as yet to indicate cutbacks in business and in consumer spending beyond those required by adjustment to more normal markets.

I should like to put these references to personal income into dollar terms. The decline in disposable income of consumers came in the last quarter of 1953. It has already been referred to by several witnesses.

Since wages and salaries make up roughly two-thirds of disposable personal income, I want to consider this segment in some detail.

Wage and salary income was about $5 billion lower on a seasonally adjusted annual rate basis at the end of 1953 than at its peak in mid-year.

This decline was concentrated almost wholly in manufacturing and, to a lesser extent, in transportation, in payrolls of the Federal Government.

Payrolls in construction, trade, the service industries, and the utilities, were all either rising or were at a high sustained level.

We have a tendency because of the spectacular performance of manufacturing, to ignore these other more stable elements in the economy. Yet, manufacturing employed in 1953 about 17 million workers, and these other industries combined employed about 25 million, so we must take them into account in our analysis of income available for spending.

Within the manufacturing segment, the decline came almost wholly because of a drop in employment, which fell by about 600,000 workers from the peak in mid-1953 to December of 1953. At the same time, average weekly hours worked by production workers fell by 1 hour, but that drop in hours was offset in the average weekly income of the employed worker by a rise of about 9 cents per hour in average hourly earnings (after the exclusion of overtime payments); that is, in base rates per hour.

As a result, the earnings of the average factory worker closed the year at about $72 a week, which was substantially the level which had prevailed throughout the year 1953. This is shown in the heavy black line on chart A, labeled "Gross weekly earnings."

In January 1954, there was a slight decline in hours worked on the average in manufacturing and, consequently, in gross take-home pay. It was somewhat more than seasonal, but January is always a seasonally low month.

During 1953 also wage rates in other industries—construction, the utilities, trade—continued to rise throughout the year and, consequently, those payrolls taken in total increased or were sustained at a high level.

Now, let us consider the outlook for 1954. First, let us take rates of pay. We start this year with a new set of Federal social-security taxes and personal income taxes. How do they affect the total payroll of manufacturing industries? We cannot answer for the whole of the payroll, but if you take a factory worker earning the average wage of $72 a week, you will find that if he has 3 dependents he just about comes out even. He gains something by the reduction in the Federal income tax, and this is about offset by the higher social-security taxes.

The worker with no dependents, who has been paying relatively heavy Federal income taxes, will gain if he is earning this average of $72, a little less than a dollar per week.

The person with higher-than-average income will gain a little more also because, as you know, the social-security take stops at a given point, on the income scale.

Now, during 1954, I think we may expect some further increases in hourly rates of pay. Even in the 1949 inventory recession, referred to so often today, when employment and hours both declined, average hourly earnings in factories, if you exclude premium pay for overtime, were increased by about 2 cents an hour during the course of that period, and there were quite general wage increases in some other industries, for example, construction, railroads, public utilities.

It is, of course, obvious that wage bargaining this year will be conditioned by the general tone of the economy. Most of the major wage agreements expire or can be reopened in 1954. Railroad contracts are now under discussion, and in recent weeks some major settlements have been reached at higher rates. In some of the contracts which are not reopenable in 1954, like those in automobiles and farm implements, there is an annual improvement factor of 4 to 5 cents an hour, and there is, of course, an escalator clause on cost of living. If we assume the comparative stability of consumer prices postulated here today, then automatic escalator clauses should not have much effect; consequently, the question of the level of incomes will probably turn on the volume of employment which is offered and the length of the workweek.

If you will forgive me, I do not wish to make a forecast of the course of industrial developments in 1954, as other members of this panel have done. Instead, let me take the parallel of the inventory recession of 1948–49 and indicate the magnitudes involved at that time.

If the same percentage decline in wages and salaries occurs in 1953–54 as occurred in 1948–49, it would mean a reduction of $8–$9 billion overall, or 4 percent. Here I am not using quarterly averages, but the seasonally adjusted annual rates at the peak and at the bottom.

During the 1948–49 recession, the decline in wages and salaries, amounting to 4 percent, worked out to about $5–$6 billion from the peak to the bottom.

During that period the workweek went down to an average of 39 hours a week, and that is about an hour less than the December figure of 1953.

Employment declined during that period, from peak to bottom, by 9 percent.

At that time, employment in the transportation industries and utilities related to industrial activity went down about 6 percent.

Taking all of these factors into account, including the present drop to December 1953, you might expect, if the 1948–49 pattern were followed, a further drop of some 0.7 million workers and about $5 billion in gross income in wages and salaries, from the level of December 1953.

Up to this point I have not yet taken into account two offsets. One is the possibility of some rise in wage rates; another is increased unemployment compensation payments, which in 1949 amounted to about $1 billion a year.

Adding up all the factors you might come out, if the 1948–49 pattern is followed, with a decline of the order of $3½ to $4 billion below December 1953 levels in the annual rate of income from wages and salaries.

Please remember I do not predict that this is going to happen, but there has been a good deal of talk about the pattern of 1948 and 1949, and in the field of employment and hours the pattern of this decline has, as a matter of fact, been remarkably similar.

I turn now, gentlemen, to the next question, namely, the level of consumer prices and the stimulus which this gives consumers to buy, referred to by Mr. Likert.

In the past year, as I am sure all of you know, prices of consumer goods and services for city families have held, on the whole, quite stable. The cost of a typical market basket of foods in December 1953 was 1.3 percent lower than at the end of 1952, following the decline of farm prices.

However, rents and charges for most services continued to rise throughout the year, and Mr. Hattersley referred to this as one of the factors in consumer buying in the past year. Medical and dental care, hospital care, laundry and dry cleaning services, local transit fares, newspapers and periodicals, beauty and barber shop services, have all gradually edged upward.

At the same time, we must remember that manufacturers' prices for non-food items have been fairly stable also during 1953.

Now, if you classify the items in the Bureau of Labor Statistics' consumer price index into three groups—commodities, which are far more vulnerable to market conditions, supply, and demand; services, and rents, as I have done in the second of the charts appended to the testimony—you will see that since the outbreak of the war in Europe in 1939, commodity prices have more than doubled, rents for city dwellings have increased by about 50 percent, and for services by about 75 percent.

Since the war ended, if you will compare now with the postwar years 1947–49 on the chart following, you will see that rents and services have been catching up. But if history is any guide, they have quite a bit of catching up to do.

Several of the witnesses today have indicated that in their view there will be no marked change in the general level of prices for consumer goods and services in the year 1954. I may say I personally share this view.

I would expect some ups and downs in these prices from month to month. Prices of rents and services can, I think, be expected to edge up slowly during the year, and prices of commodities will, in large measure, depend upon supply.

For example, wholesale prices of meat have advanced 7 percent from December to January because of seasonally smaller marketings of cattle and hogs. There already have been some increases in retail prices of meat in consequence of this wholesale price rise. Such short-run changes as these are always expected, and they should not be overemphasized.

For apparel and house furnishings and the other consumer durable goods, other members of the panel have already spoken. They appear to anticipate some slightly lower prices for these items, but no great change.

The importance of price stability in 1954 seems to one to be that if consumers do not expect any great price changes to occur, there will be no rush to build up personal inventories as in 1950, after the Korean war, or any tendency to delay needed purchases in anticipation of lower prices. I think this point in Mr. Likert's testimony is particularly worth noting.

It is well to remember, as several members of the panel have indicated, that there is now less flexibility in costs of production and distribution of consumer goods than in the years before the war, and that the limits within which costs and prices can change in the short run are fairly narrow.

In the long run, changes in technology and improved productivity, may bring them down, as they have done in the past. But the higher costs of doing business today are built into the business structure. They include larger capital costs for plant and equipment, higher wages, and higher transportation costs all along the line.

Some of these higher costs are reflected in improved service, better packaging, better quality, and some merely represent higher dollar tags in line with the increase in the general price level.

It is also well to remember that more of today's costs are built into retail prices than was true in the 1920's, when more processing of food and many more services were performed at home. Today these are bought on the market.

Given the ability to buy, the question then becomes one of consumers' need to buy and willingness to buy.

In 1949 there was a sharp drop in disposable personal income, extending over a year, but the adjusted annual rate of consumers' expenditures dropped only $1 billion, concentrated in one quarter.

The studies of the Bureau of Labor Statistics largely confirm the observations of Mr. Likert, namely, that consumers do not readjust their levels of expenditures immediately to changes in income unless there is a drastic decline, such as is associated with extended unemployment, the illness of the head of a family, or a major catastrophe. In particular, they do not change their levels of expenditures if the change of income is regarded as temporary.

When income rises, the family continues for a time to live in the same house, to buy about the same kinds of food and clothing, and it is only after some time has elapsed that it adjusts to a higher level of income and begins to buy these durable goods that Mr. Likert talked about.

The stickiness in the spending pattern, which is typical of rising incomes, also follows as income diminishes. As I said, the change is never very marked. For example, if there is a layoff with an anticipated early return to work, it is unlikely that there will be any marked change in the family's pattern of spending. The essentials are paid for first, the rent and utility bills, food, transportation; the family keeps up its payments on insurance and on installment purchases. It will continue to buy, even with a reduction in income, certain customary things: Ice cream cones for the children, an occasional movie, newspapers, but it will spend in a somewhat less free way, and it is unlikely to make any heavy new commitments.

It will borrow from friends or relatives or will use credit for a time to sustain its customary way of living.

However, in interpreting consumption expenditures this year, I think we should not underestimate the importance of one factor mentioned here by Mr. Hattersley, the concentration of reductions in employment, and consequent unemployment in certain areas and among certain groups of people. Wherever certain areas or certain types of workers are hit harder than others, and where the outlook for employment is not good, there we can expect some sharp cuts in expenditures. This has always been true.

If those areas are not too numerous, the effect upon the total for the country as a whole may not be appreciable, but for the people who are affected, the situation is a very severe one, and one which, I am sure, none of us wishes to underestimate. Thank you, Mr. Chairman.

Chairman WOLCOTT. Thank you, Mrs. Wickens.

Are there questions of the panel or among the panel, of each other?

Representative PATMAN. I would like to ask Mr. Hattersley a question or two, Mr. Chairman.

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. Do you have retail sales by the mail-order houses for January?

Mr. HATTERSLEY. No; I do not have that information, sir.

Representative PATMAN. Is it available now?

Mr. RATTERSLEY. I do not know whether it is published separately.

Mr. ZELOMEK. I imagine, Congressman Patman, I believe they will be off approximately close to 10 to 12 percent. But you have to allow possibly, 2 to 3 percent because of 1 less selling day in January as compared with January 1953.

Representative PATMAN. The decline in personal and annual rate of personal income since the middle of last year, say, June 30, was about $3 billion. Has the 10 percent personal tax reduction done more than merely offset the 1953 drop in consumer income?

Mr. ZELOMEK. I never look at it from the viewpoint of 1 month as compared with another month. I look at it strictly from the viewpoint of 1 year compared with another. I am of the opinion that the savings in reduction of taxes have been greater for the overall economy; in other words, the decrease in taxes——

Representative PATMAN. Will be greater for the overall economy.

Mr. ZELOMEK. Yes. I have a figure here, if you are interested: We estimate that disposable income in January will approximate $249.2 billion as compared with $244.5 billion, annual rate, in January 1953.

Representative PATMAN. I see.

Is it not true that to reverse the present decline in activity, consumers will have to increase their rate of spending and decrease their rate of savings?

Mr. ZELOMEK. Not entirely.

Representative PATMAN. Not entirely?

Mr. ZELOMEK. It all depends; if they are willing to go into debt at the rate that they have, then they do not have to decrease their savings. I think we have to look at it from the standpoint of the consumer's expenditures on nondurables and durables.

I should like again to refer to the statement I made that the percentage of money spent for durables in the period since the end of the war has been abnormally high. It had a definite restraining effect on spending on textiles and apparel, and some of the other consumer goods. The ratio has been too high—although I do not believe that we will return to a prewar ratio of spending on consumer nondurables to durables in 1954, I believe the trend is unmistakably in that direction.

For the record, I might also point this out, that the January unit sales of soft goods and textiles and apparel, in department stores, have been the greatest on record, because of sharp price reductions.

The public has responded, and they will always respond to new items at reasonable prices.

Representative PATMAN. I would like to ask Mr. Colm a question, and then I will be through, Mr. Chairman.

Did I get the correct impression from your statement that we will have to increase our consumption in this year to make up for the slack in the year-end activity?

Mr. COLM. Mr. Patman, the statement I made was that if during the fiscal year 1955 we are to have what we call full employment, which is a little bit less of drain on the labor force and overtime than we had during the last year—but what we call full employment, using that term, or maximum employment, as the law states it, then consumer expenditures should be higher by about $20 billion annual rate than they were at the end of calendar year 1953.

Representative PATMAN. How do you think we can get those expenditures in the most effective and most satisfactory way? Would it be by making it possible, through tax adjustments, for the low-income groups to have more spendable income or the higher groups for investment purposes?

Mr. COLM. Well, if there were no budgetary consideration, I would say let us have both. The limiting factor, of course, is that we cannot give as much tax relief for both investment and consumption as we would like, if there were no budgetary considerations.

Mr. Patman, I think I have to come back to the hen or the goose, or whichever it was that laid the golden egg. If we, through some tax relief, create conditions of expanding markets for consumers, some expansion—by no means the whole $20 billion, but some expansion—then I would rely on the competitive mechanism where business in an atmosphere of growing market steps up production to create additional income and additional markets. So that even through minor tax relief—when I say minor, I talk about a few billions—we may get a larger increase in personal incomes, disposable incomes, and consumer expenditures.

Representative PATMAN. I evaluate it this way: If we make it possible for the consumers, the low-income groups, to make up for that slack, it will take care of any expansion needed now. For the next 2 or 3 years the large industries will get enough funds out of depreciation, retained earnings, and depletion for expansion.

For example, last year they received practically the entire amount that was necessary for expansion through those three sources of retained earnings, depletion, and allowances for depreciation. If you take care of the consumers and help them have more buying power, it occurs to me that will also help to take care of the other situation.

Why make it possible for companies to get more funds through tax relief when they have no place to use them.

Mr. COLM. Mr. Patman, I agree with that if you look at the aggregate, and that looks pretty good, I should say.

Now, the unfortunate thing is that the accrual of depreciation allowances and retained earnings is somewhat differently distributed from the distribution you want to see by way of expansion in additional physical plant. There are important industries where the internal accrual is not sufficient to do everything these industries could do. Unfortunately, they are, to a large extent, the smaller firms.

Therefore, I am all in favor of provisions which make it easier for business to attract funds; but I am not——

Representative PATMAN. I do not agree that by following your suggestion you help the smaller concerns; that is more pouring money in at the top, and I do not think the smaller firms would have a very good chance to get it.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. Mr. Hitchings, I wonder if you, particularly, and the panel generally, would agree that one of the differences that exist today between the situation in 1949–50 or 1948–50 and the present situation, is that in the earlier period, 1949–50 period, despite the recession generally, that automobile expenditures, consumer expenditures for automobiles, held up remarkably well.

Mr. HITCHINGS. Yes, that is correct. Of course, there were good reasons for it at that time. We had a backlog of demand which we had not been able to satisfy, so even the dropping off of some potential customers in 1949, because of the down-turn in employment and incomes, did not hurt the automobile industry at all. We had more potential customers than we could take care of with available productive capacity and material supply.

An increase in automobile production was made possible in 1949 by improved material supplies. Other steel customers took less steel than in 1948, and the steel industry expanded further its sheet and strip capacity—the primary limiting factor in automobile production.

One of the main reasons for the relative stability in 1949, coming out of the inventory adjustment, was the growth in the automotive industry and the high level of construction that was maintained. The situation was different at that time than it is now because both the automotive and construction industries were then working on a backlog of unsaisfied demand.

Representative BOLLING. And there is no contention today that a similar situation exists in the automobile industry?

Mr. HITCHINGS. That is correct.

There is one factor, however, which is more favorable this time than in previous inventory adjustment periods. In the past, much of the impact of such adjustments fell on personal spendable incomes and on corporation profits after taxes (which are a source for business spending).

This time, the bulk of the initial impact has been on Federal Government tax revenues. For instance, of an initial drop of $12 billion in gross national product, $7–8 billion would fall on Federal Government tax revenues. This results from the combination of lower taxable incomes and the tax rate reductions.

For that reason, the impact has not been very great as yet on spendable incomes, both of consumers and business firms. This is an important sustaining factor which I think is different this time than it has been in the past. It is at least a partial offset to the fact that we are no longer in a situation where automobiles and construction would provide as much of a lift to the economy as they did in 1949.

Representative BOLLING. What do you have to say to that, Mr. Colm, that last statement? Would you agree?

Mr. HITCHINGS. You are referring to the statement that automobiles and construction at this time would not provide the positive lift?

Representative BOLLING. The alternative that you suggested.

Mr. HITCHINGS. You refer to my statement that there are offsets now that were not present to the same degree in the past inventory adjustments such as 1937–38 or 1948–49, in that the initial impact has come primarily on Federal Government tax revenues rather than on personal income and corporate profits after taxes.

Representative BOLLING. Would you agree with that analysis?

Mr. COLM. Yes.

Representative BOLLING. So that you have a partial offset.

Mr. HITCHINGS. Yes.

Representative BOLLING. While you do not have the sustaining factor of the very substantial automobile and hard goods demand generally that kept, at least, the automobile line moving up.

Mr. HITCHINGS. That is correct.

Representative BOLLING. This other factor would have considerable offsetting effect.

Now, Mrs. Wickens, Dr. Colm said that there had been relative price stability since the spring of 1951. Do you agree with that?

Mrs. WICKENS. This is not true as it affects farm prices which declined very sharply in 1951 and 1952, but which have leveled off to some extent in recent months, as all of us know.

There has been substantial price stability in industrial prices in the last 18 to 20 months.

If you take the wholesale price index of the Bureau of Labor Statistics and exclude farm products and foods, there has been considerable price stability, with very little variation.

At retail, as I indicated earlier, the variations have been in prices of commodities, and primarily in foods, offset by rising costs of rents and services, which, of course, are affected by different kinds of market conditions.

Representative BOLLING. What would you say was the situation in the early part of last year; did we have on the basis of price indications, an inflationary situation, a stable situation or a slightly deflationary situation?

Mrs. WICKENS. I do not think that prices have reflected any marked change in the last 2 years with reference to inflation, if by that you mean the money supply.

It seems to me that in view of the fact that everything has been at a very high level, we have had no very great change in the forces affecting prices and the money supply in the last couple of years, in relative terms, except for credit policy, which has varied from time to time.

Representative BOLLING. Then it would boil down to, in effect, saying that we had a relative price stability, except in the farm sector——

Mrs. WICKENS. That is right.

Representative BOLLING (continuing). Where there had been a trend downward.

So as far as prices are concerned, you had stability, plus a trend downward in certain areas.

Mrs. WICKENS. Yes. Of course, I do think we must remember that we have an exceptionally high level of prices consequent upon many years of inflation in the true sense of that term during World War II, and the Korean period, and you do not change that kind of price level drastically without putting a lot of people through the wringer.

Representative BOLLING. Do you want to comment on that or does it boil down to about what you meant?

Mr. COLM. Mr. Bolling, I made my observation only with respect to a statement in the economic report where it was stated that the high level of investment in the past is no indication that that will continue, because that was a period of inflation.

I wanted to say that inflation had virtually come to an end at the spring of 1951, and we had the highest level of business activity after that period. So if there is some deflation in certain areas, that makes my statement even more valid.

Mr. ZELOMEK. Mr. Bolling, I would like to comment upon one statement that was made about consumer durables. I do not agree that the same constructive factors about consumer durables are not present in 1954. I believe that the expansion of consumer durable goods spending in the last 6 months of 1954 will be relatively marked, particularly with the increased importance of air conditioning, dryers, automatic washers, in addition to the expansion of interest in television and radios.

I do not go along with the philosophy that the American home is adequately supplied. We were told that about radios 5 and 10 years ago, and today the number of radios in the home has increased to an average of three per home.

My contention is that the increased number of the new durable goods products will contribute to an increasing amount of expenditures for total durables, and that the total consumer durable goods expenditures in the last 6 months will exceed the last 6 months of 1953, even though they will be lower during the first 6 months. The total spending for nondurables and durables for the year as a whole, may not vary more than 2 percent from 1953 even with the decline in the first 6 months which will be partly as a result of the larger decline in automobile sales, and I think that the factor of the new gadgets, as we call them, will contribute to a higher rate of consumer durable expenditures in the last 6 months of 1954.

Representative BOLLING. In other words, there will be a remarkable upsurge in durables rather than automobiles?

Mr. ZELOMEK. I would not call it remarkable, but I say the stimulus of a low priced air conditioning unit may cause sales to reach a total probably of over a million and half. The wider introduction of the dryers, also new automatic washers, which are replacing the traditional washers, the increasing importance, for example, of various type carpets, as well as cotton rugs, all will contribute to a gain in total spending for the home. This will be especially true if American business goes back and does what it has always done, and is doing now, making something new and something different, the public will respond.

Representative BOLLING. You would estimate on the whole that the year 1954 would maintain about the same level as the year 1953?

Mr. ZELOMEK. Consumer spending for goods and services, yes. Consumer spending for goods alone will be off moderately, very moderately, resulting mostly from the decline in durable goods spending in the first 6 months.

Consumer nondurable goods spending, which includes textiles, apparel food, and the rest of them, will probably equal that of 1953 in dollars, and increase in units.

Representative BOLLING. Mrs. Wickens, if I understand you correctly, the so-called slow movers, such as services of certain kinds, have gradually been moving up on a catch-up basis.

Mrs. WICKENS. Yes, sir. For example, many of the rates for local utilities are regulated by State and local commissions, and we all know of rate-increase cases pending in some of those localities. It takes a long while to work those cases though just as railroad rates on interstate carriers are changed slowly.

There have been postal rate increases. Doctors do not change their fees often, but when they do they stay at the new level.

Representative BOLLING. In this field there has been a substantial—a signficant increase during the past year.

Mrs. WICKENS. Oh, yes; there has been a significant increase, and year after year it persists.

Representative BOLLING. And also in the field of rents.

Mrs. WICKENS. Yes, also in the field of rents, as shown by the chart before you here.

Representative BOLLING. Am I correctly informed? I have understood that after having gone down for 2 months, the cost-of-living index was going to show another increase.

Mrs. WICKENS. I am unable to forecast that figure. I think it is certain that there will be some rise in meats shown in January, because of the rise in wholesale prices which I referred to earlier. The higher prices of the new model cars in January will have some effect, too. However, prices of clothing and housefurnishings may be down as a result of sales. But we have not got our reports in yet, sir, and we are not sufficiently informed to give you anything firm on the index for January.

Representative BOLLING. Mr. Colm, you, I think, are our only witness who brought out in detail the view—and I suppose I got the implication correctly from your statement—that, perhaps, complacency with the second best year might not necessarily be a solution to the economic needs of the country over a period of time.

I wonder what might happen if we projected for 3 or 4 years a continual contentment with a slightly lower level than the year 1953—if, for example, 1954 we were off a few percent, and then we maintained that level of economic activity through 1955 and through 1956, what would be the effect on the full employment approach?

Mr. COLM. Mr. Bolling, we estimated that, perhaps, under the present downturn trend we would be in 1954, 3 percent below the level of 1953, but 6 percent below the full employment level. If that trend continues, it would lead us in subsequent years to a greater discrepancy between the full employment and the actual level. It might easily lead us then to 9 percent below the level, below full employment in 1955.

My concern, if I am permitted to express an opinion, is with two facts: one, the growth factor—recently our economy has been increasing its output per man-hour by between 3 and 4 percent annually. In our fiscal 1955 estimate we assumed a rate of increase of only 2 percent fiscal 1955 estimate we assumed a rate of increase of anly two percent per annum. I would say our estimate is on the conservative side. So unless we have expansion we will get underemployment.

Secondly, I think that in an economy that moves toward lower defense spending—and I hope that will continue—we have in addition some adjustments which are not fully made even if little inventory fluctuations, have been straightened out.

With all the hope we have that the optimistic predictions are correct and that this inventory fluctuation is not very serious, for policy

With all the hope we have that the optomistic predictions are correct and this inventory fluctuation is not very serious, for policy considerations we should recognize that there are deeper problems; we should see a little below the surface. On the surface we see some waves, but under the surface we see some undercurrent which, I think, is more serious and should more concern us when discussing tax policy.

Representative BOLLING. If, for example, we found it convenient to be complacent about maintaining the same level of economic activity as that experienced in 1953, if that continued for a number of years, then obviously there would be an increasing amount of hardship for individual citizens.

Mr. COLM. Yes, sir.

Representative BOLLING. You put in your statement "double taxa-
then obviously there would be an increasing amount of hardship for
explain what you meant by putting it in quotation marks?

Mr. COLM. I would be glad to do so. I had two reasons for the quotes. First, when we talk about double taxation, then everybody says that corporate taxes cannot be shifted to the consumer, they all fall on the stockholder.

In another context we hear sometimes expressed by the same people that there corporate taxes are really no better than sales taxes, they all go into the price. If they go into the price, then they cannot be double taxation of the stockholder.

I do think probably some of both is true; there is some element of double taxation in them, but this is a very subtle question to decide.

My second reason is that we have double taxation all over our system. When we smoke a cigarette, well, our income spent for that purpose is taxed a second time, and in these other cases we are not too excited about it.

My conclusion is not that I say it is undesirable to make allowance, to give any relief here. I do not draw that conclusion, but I say that has to be done on its merits. We have to analyze what does this tax do to our investment level. If we find that this allowance would stimulate it, and if you want to stimulate it, then it is a good thing to do. But we should not do it because of the somewhat emotional appeal in calling it double taxation. More analysis is needed to prove that here some relief needs to be given.

If I may make a third point, stretching your patience, Mr. Bolling, I would like to say this: As soon as these tax recommendations were announced, the stock market went up. I put it only as a temporary sequence, but there is likely also some casual relationship.

Now, to that extent, we have here a gain for those who are holding stock. But does this really attract new people getting into the market and, presumably, providing capital for growing enterprise? They would not have very much of that advantage because what they are buying is a stock at higher price, so that even though they do not pay the full tax on their dividends, the yield on their investment may not necessarily have changed. Those are the three reasons why I have a little question mark on that particular point.

Representative BOLLING. You indicate a gap for the coming year of roughly $20 billion, if I understand your statement correctly.

Mr. COLM. Yes, sir.

Representative BOLLING. You then, in examining the tax program, estimate a net of about $2 billion in reduction of taxes, which is an offset of 10 percent of the $20 billion that you estimate, $2 billion of $20 billion.

Would you be prepared to suggest how vigorously one would have to move in the tax field, both on the incentives to industry and to higher incomes, but also in remissions to consumers, how much of a move would have to be made in tax remission to fill that gap or substantially affect it?

Mr. COLM. Mr. Bolling, I am unable to give a very conclusive answer to that in one sentence. There are very many aspects involved, and it is more for use to give you the pros and the cons and for you as a legislator, to give one answer that way.

Representative BOLLING. I would be glad to yet you argue it pro and con.

Mr. COLM. I would gladly do that, if there is time.

Representative TALLE. Mr. Chairman, I would like to ask Mr. Likert a question.

In looking at the report of the Department of Commerce, I find that prior to World War II, consumers were saving 5½ percent of their income after taxes. Then, of course, came that period of forced saving—the World War II years—when it grows very high.

After World War II, and more particularly in 1950, just before Korea, the figures indicate that consumers had returned to their practice before World War II, and were saving 5½ percent of their income after taxes.

These figures indicate that at the present time they are saving 7½ percent. If consumers returned to the pattern they followed in 1939 and 1950, there would be a release of approximately $5 billion of demand, which would be spendable income among consumers. Does the panel think that is something to consider?

Mr. LIKERT. Yes, I think that is important.

It is rather striking how consumers respond both to price increases and to income changes with regard to this last point.

We find that when slight changes in income occur, there is not much response in terms of major expenditures, that is, drawing on savings and increasing debt for the purchase of consumer durables or major outlays. But when there is an appreciable increase in income, what happens is not always the same. We would like to know more about it, but apparently what sometimes happens is this: All of us have plans to increase our purchases. The housewife knows what she would like to do and the husband knows what he would like to do.

When the fellow gets the increase or anticipates the increase if he expects it, it works the same way. He goes home and tells his wife, and instead of increasing their savings, they tend to draw on their savings and increase their expenditures. Instead of going gradually up to a new level of living, their expenditures jump up and then level off after hitting a peak. If any tax changes or anything else were to change net take-home pay substantially, by 10 percent or more, enough so it is felt to be appreciable, then it has this very stimulating effect on purchases. Small effects have small changes relatively; they seem to have relatively less consequences.

But when prices go up, people feel they are worse off and this tends to stimulate the withdrawal of purchases. In 1951, for example, even though there was a substantial increase in consumer disposable income that year, people felt they were worse off and felt uncertain about their economic future with higher prices. They expected prices to go still higher, and they felt this was an uncertain time and, therefore, they wanted to play it safe, so to speak. They decreased their expenditures for consumer durables, and substantially increased in 1951 their rate of savings.

In the period at hand, with price stability, perhaps some price decline, I do not know, but with price stability at least, I would expect there would be an increase in the proportion of the people who feel they are better off. Slight increases in take-home pay, I do not think, will have any effect on whether familiese feel better off. But any substantial increase in take-home pay would stimulate buying beyond that which would occur with the same changes in income if we did not have the increased stability of prices.

Mr. ZELOMEK. Mr. Talle, I do believe there is a new philosophy that has developed among the public in the last 10 years. I think we have got to live, fortunately, with a high savings level and a high debt structure on the part of consumers. I believe that is where most economists have gone off the deep end in their concern about this rising consumer credit.

I believe that the rise in consumer credit must be closely related to the increase in savings on the part of the consumer. Unfortunately, we cannot substantiate this, but have found this to be true in a few checks that we have made ourselves among stores in various sections of the country. For example, we took 1 store, and they checked 340 applicants for installment buying, and we found an interesting fact: That while they assumed, I believe, $180,000 worth of short-term debt, that small group had a cash reserve in savings banks equivalent to $390,000, and I believe this is something for the psychologists to look into. I believe that that group of the public who remembers 1930–32 have decided that they are not going to be caught again, and they would much prefer to assume a short-term debt of 18 or 24 months but, at the same time, maintain their cash savings, and I would be surprised if we have any marked decline in savings.

Our own estimate for 1954 is no change in total savings in relation to income, and I would project that possibly into 1955. I am not disturbed about the outstanding installment debt.

Representative BOLLING. Mr. Talle, would you yield at that point?

Representative TALLE. I would be glad to yield.

Representative BOLLING. Isn't that a remarkably uneconomic procedure on the part of the consumer?

Mr. ZELOMEK. Yes, sir; but it is what they call a feeling of security.

Mr. LIKERT. Mr. Chairman, there are some very interesting data on this point that have come from a series of studies. We find at the present time that people who are making the greatest use of personal debt—I am using consumer debt here, the time buying and things of that kind, not mortgages—are the people who are planning to buy consumer durables in the years ahead.

Secondly, as you indicated, they say, "Sure, I know I am paying 10 percent interest on this money, but I know this: If I keep my savings or my series bonds or whatever it is, and buy this refrigerator or whatever it is I am buying, the credit company or whoever is financing it will see to it that I will pay for it, they will hound me; and at the end of the period I will have both the refrigerator, and my savings. If I use my savings and draw my savings out I never would discipline myself to replace them." They say that very definitely.

Mr. ZELOMEK. Well, I think it is a study for one of the agencies to undertake. I recall back in the early days before I got into this forecasting profession, in the beginning of 1930, everyone felt that the high consumer debt would be as a major factor in the 1930–32 decline.

I do not believe it contributed one iota because those who carried a debt repaid it. At this moment we are unduly alarmed. We never could have created this productive capacity, we never could have sold most of the durable goods. I contend we are going to expand, further, and at the same time maintain that 7½ percent ratio of savings to income and at the same time our current rate of consumer debt.

Now, in 1954 I believe the public will stop expanding installment buying. Redemptions will exceed new debts. I believe Mr. Hattersley has shown there is some indication where they will momentarily stop and wait and see what happens.

Representative TALLE. It must appear then that businessmen are pretty well satisfied with installment buying which, at one time, was not so respectable as it is now?

Mr. ZELOMEK. I have a phrase which I hate to use; I have contended for years that the American public is not happy unless there are two or three collectors at the door. Why keep them unhappy?

Representative TALLE. I gather, too, then, that some of you, at least, believe that the rate of saving will continue higher than it was before World War II and before the Korean War.

Mr. ZELOMEK. I believe it will. We have no indication as yet as to the psychology of the new generation, which has no knowledge of the period of 1930 to 1933. I think you would find that the percentage of the population in the older age groups is higher—I may be wrong in my deduction—but I believe that is what we would find. It would also be interesting to determine the percentage of debt assumed by the various age groups as well as their savings.

Mr. LIKERT. That is important.

There is another thing that is very important, and that is what we call the life cycle of the family. Prior to marriage, single people have a relatively high rate of savings. When they first get married they begin to dissipate it, and go into internal debt for various kinds of purchases in the home. But the period when they really begin to incur debt is at the time when the family begins to increase. The nest, so to speak, takes a lot of equipment, and they buy driers, washing machines, and all kinds of things, as a consequence, so you have a period of rather rapid accumulation of debt. That is also the time when they are most optimistic and feel they have the greatest income patentialities so, therefore, they are most willing to incur the debt in this phase of their development.

The debt begins then to fall off as the youngsters grow up, but it still continues on through the time that the youngsters are in the home. As the youngsters leave home, the rate of savings goes up, and the incurring of debt drops off.

Now, the pattern I have just described is confused by the experience during the depression. Older people particularly farmers who experienced the depression, will never forget it. For example, one farmer in an interview cited the fact that "every single farm in this township except ours was foreclosed in 1920-21," and he never forgot it. You find that people who went through 1920, 1921, 1932, are somewhat more reluctant to incur debt, but this is an area in which we need far more data than we now have.

Representative TALLE. Thank you very much.

Mr. HITCHINGS. Mr. Talle, may I make a comment on the savings aspect?

Representative TALLE. I would be delighted to have it.

Mr. HITCHINGS. The term "savings" lumps together many different items. When you talk about savings, therefore, it is necessary to consider what is included in the savings figures.

The Department of Commerce figures on personal savings include debt expansion as an offset to accumulation of liquid savings. A slowing down in the rate of debt expansion would have the effect of increasing total personal savings. This could be offset by a slower rate of savings in the form of currency and bank deposits.

The fact that the total personal savings rate in 1954 may be the same as in 1953 does not, therefore, imply that people will continue to add to their holdings of currency and bank deposits at the same rate. It is just that any decline in this form of savings is likely to be counterbalanced by the fact that people will not continue expanding their debt outstanding at the 1953 rate.

One reason that there will not be as much debt expansion in 1954 is that automobile credit, which was the major factor contributing to the increase in installment credit in 1953, is not likely to rise appreciably in 1954. I have a chart here for the record which shows the volume of automobile credit extended and repaid.

You will note that the volume of credit extended always moves up before the volume of repayments. It takes a while for the volume of repayments to reflect the higher levels of credit extended. Now we are reaching a stage where the volume of repayments is catching up with the high volume of car sales in 1953.

The volume of credit extended, on the other hand, will probably be a little less this year than last year because the volume of new car sales in 1954 will probably not be quite as high as in 1953. This lower volume of credit extended coupled with the higher volume of repayments, will close the gap between the two. Consequently, the amount of installment credit outstanding will not rise appreciably.

This is in the nature of a temporary breathing spell following the unusually rapid expansion of automotive credit from the low levels at the end of World War II. Over the long run, there should be continued growth in installment credit outstanding. For one thing, growth in the adult population alone would produce an increase even if per capita debt were to remain the same. Actually, per capita debt should increase a little over time because of higher real incomes.

If I might make one more comment, Mr. Chairman, to clarify for the record what might seem to be some disagreement between Mr. Zelomek and myself on this question of consumer durables as a stimulus in 1954.

The point I was making to Mr. Bolling was that we would not have autos expanding throughout 1954 over 1953 levels the way we did in 1949, for very good reasons.

In 1948 there were 3½ illion cars sold at retail. It was not because customers would not have bought a good deal more; it was just that we could not produce any more than that for the market in 1948.

In 1949, because there was an increased supply of steel available, we were able to move up to where we sold over 4,800,000 cars, despite the decline in employment and incomes.

This time, in 1953, we sold over 5,700,000 cars, which is a quite different picture than it was in 1948. My point was that you would not expect the automobile industry to sell more than 5,700,000 in 1954. There is no disagreement with Mr. Zelomek on this point, but without that clarification there might seem to be some disagreement.

The other factor different now than in 1948–49 is that in July 1948 we had less than 8 million cars under 7 years of age in this country, compared with 19 million in 1941 under 7 years of age. This is shown in one of the exhibits in the record.

Now, however, we have 29 million cars under 7 years of age, instead of the 8 million that we had in 1948. Quite obviously, we have a different situation in cars now than we did in 1948–49.

In regard to other consumer durable goods, I would certainly not disagree that you can have an upturn. Actually, the downturn that we have had so far in other consumer durables outside of automobiles has been solely, to my way of thinking, due to the decline of employment and incomes. It is not because these durables have had an abnormal rate of demand which now must return to more normal levels.

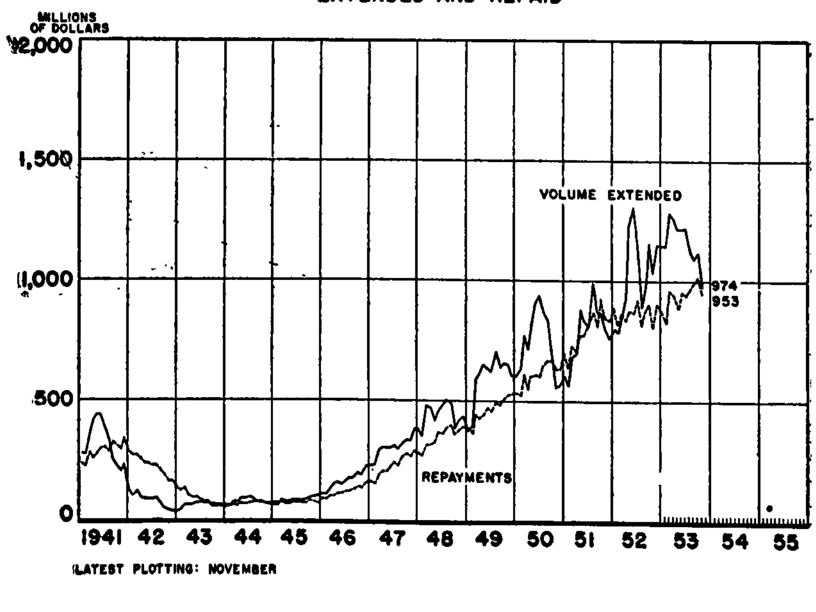
As a matter of fact, people are spending a smaller proportion of their income on other consumer durables than might reasonably be expected at the present time. As soon as there is a rise in employment and incomes, which I think both Mr. Zelomek and myself are anticipating, there will be a sharp upsurge in buying of other consumer durables.

Representative TALLE. I want to say thank you to all members of the panel for educating me on these important matters.

Chairman WOLCOTT. We will insert the chart on automotive installment credit extended and repaid in the record at this point.

(The chart referred to follows:)

AUTOMOTIVE INSTALMENT CREDIT
EXTENDED AND REPAID



Senator SPARKMAN. Mr. Chairman, I would like to ask just one or two questions. They will be brief because, I am sure, the field has been fully covered.

Chairman WOLCOTT. We will be very glad to have you do so.

Senator SPARKMAN. Taking up the last point made about this upsurge about durable goods of the types other than automobiles, I believe that is the way you said it, was it not?

Mr. HITCHINGS. That is right.

Senator SPARKMAN. As soon as you get the upturn in employment and in wages, I think you are right; I think certainly we all would go along with that statement. The question in my mind is when and how are we going to get that upturn in employment and in wages? When, for instance, in your automobiles—I assume from your statement that there will be a cutback in production and, therefore, a loss in employment there. Car loadings are going down, and there is a loss of employment, and so many things we see in which there is this loss in employment. How are you going to turn that around?

Mr. HITCHINGS. The answer to that, Senator Sparkman, is that most of the readjustment has already occurred. We have had the cut in automobile production. We have had the cut in the other durable goods areas, so that the groundwork is now being laid for a reversal of that situation.

Inventory readjustments precipitate declining business activity, employment, and incomes, because of the shift from inventory accumulation to inventory liquidation. If final consumption holds up reasonably well, the rate of inventory liquidation will slow up and then cease. When this occurs, employment and incomes will increase.

Senator SPARKMAN. Is it your contention that the inventories have been pretty well liquidated, for instance, in the automobile field?

Mr. HITCHINGS. I feel that total business inventories are now being liquidated at a rate which is not likely to continue beyond the first half of this year. This assumes that other types of spending hold up well in the meantime, which is likely in my opinion.

A shift from liquidating inventories at an annual rate of $3 to $5 billion to a period of no change would in itself provide an upturn to the extent of the $3 to $5 billion. People would be called back to work as production is increased to equal final consumption of goods. This is the source of the turn-around in business activity in a strictlv inventory-type readjustment.

In the case of automobiles, production has alreadv been cut down substantially.

Senator SPARKMAN. When?

Mr. HITCHINGS. It was cut down in the latter half of last year.

Senator SPARKMAN. How long do you think that will continue?

Mr. HITCHINGS. I think we are down close to the bottom. From now on, if anything, there might be a slight seasonal rise during the March-May period.

Senator SPARKMAN. Are not the schedules for production during this whole year already pretty well made?

Mr. HITCHINGS. No, sir. Normally——

Senator SPARKMAN. Does that change as you go along through the year?

Mr. HITCHINGS. That is correct. You schedule according to what the customers are buying. If the customers buy more, you schedule more. Schedules are usally not firm for more than 2 or 3 months ahead, and can be changed quicker than that if need be.

Senator SPARKMAN. Did Mr. Bolling refer to an article in Sunday's New York Times about the used-car situation throughout the country?

Mr. HITCHINGS. No; he did not.

Senator SPARKMAN. He showed me that article a few minutes ago, and that is the reason I asked whether he referred to it. I read it. Did you read the article?

Mr. HITCHINGS. I did not read the article but, of course, I know the figures covering the used car situation and would be glad to comment, if you wish.

Senator SPARKMAN. I would be glad if you would, coupled with something that I have run into down my way, and I do not profess to know that it is general—it may not be general—and that is the backing up of 1953 models in the hands of the dealers, that they are frantically trying to get rid of before the 1954 model is forced on them.

Mr. HITCHINGS. First of all, I should like to comment on the used car situation. Used cars are not moving at this time of the year any more than they ever do. January and February are slow months in the car business under normal conditions.

The same thing was true a year ago. At that time there were a lot of scare stories written that the used car market was in bad shape, that people just were not buying used cars. When we came along to March and April, there was a sharp seasonal upturn in buying of used cars.

Senator SPARKMAN. How long does that usually carry?

Mr. HITCHINGS. The seasonal peak is usually reached about April or May, and sales hold close to that peak through at least July, and sometimes through August. What looks like a bad used car situation in February, therefore, is not necessarily a bad situation in April.

Last year, for example, there were articles written quoting certain dealers as saying that their used car sales were down.

While this may have been true for particular dealers, it was hardly representative of the total used car market. Total sales of used cars in March 1953, by new car dealers, who account for the bulk of used car sales, showed an increase of 27 percent over the same month in the previous year.

I do not think we can tell for sure what the used car situation will be until we see how much of a seasonal pick-up there is in March and April. I can say, however, that there has always been a very strong seasonal in the used car market. January and February are not good months, but they are followed by the peak Spring months.

The other point that you raised is about the problem of liquidating the new 1953 models. This problem varied in degree to a considerable extent within the industry. It is true that in some cases there was a problem of liquidating 1953 models when the 1954 models were introduced. For the most part, however, this liquidation has been accomplished. The small amount of 1953 models that still remains to be sold attracts public attention, but it is actually only a small proportion of total dealers' stock on hand.

Senator SPARKMAN. That article carried in the New York Times of Sunday was from Detroit, and it was an Associated Press article, and apparently was based on a survey that the Associated Press had made. I believe it was only one area that they reported their survey showed was normal, and that was in the New York area. In all the other areas it was worse, apparently, than it was a year ago.

Mr. HITCHINGS. New car dealers have somewhat more stock of used cars on hand than they had a year ago. Stocks of new cars are higher. Sales of both used and new cars are somewhat below a year ago.

Senator SPARKMAN. It said failures were about twice what they were a year ago.

Mr. HITCHINGS. This is in part, of course, readjustment to a more normal market condition. We had not returned to a normal market even in January of last year, because there was still an unsatisfied backlog of demand for cars. This backlog has now been largely eliminated.

Elimination of this backlog does not imply that growth in ownership of cars has ended. Further growth will occur as adult population and buying power increase.

Senator SPARKMAN. I believe all of the predictions you have made. I think one of you said a few minutes ago that your sales of cars anticipated in 1954 would be considerably less than last year—did you not make that statement?

Mr. HITCHINGS. That is correct.

Senator SPARKMAN. Then the thought occurs to me how are you—I am not talking of stopping the downtrend, I am talking about getting these people who are laid off during the downtrend back to work—how are you going to get them back into employment if you are actually making less cars?

Mr. ZELOMEK. Senator Sparkman, take your other side of the equation, the rest of the consumer durables. Inventory liquidation has been very marked, and I believe that by the end of June at the latest——

Senator SPARKMAN. By when?

Mr. ZELOMEK. By the end of June at the latest, inventories of the high saturated items, as refrigerators, radios, and electric irons will have been liquidated to a point where the retailer will have to replace one for every one that he sells, the same as in your industry. Replenishment of textiles and apparel has got to begin very soon.

I think one of the most significant things that has happened in the textile industry occurred within the last week—Mr. Hattersley will confirm this—Cannon, Springs, and others reduced prices on sheets. The retailer had low stocks, I believe, at the end of January, they were possibly at the lowest level in some time. For the first time, I believe, in 2 years or maybe a year and a half, the retailer came in and placed sufficient orders to assure a high production level in that segment of the textile industry, at least through May.

Now, what have you in inventory liquidation? And, I think we might as well keep that in its proper perspective—it happened in 1937, it happened in 1949, it happened in 1951—there is a tendency to "decumulate," if you want to use that phrase, as compared with an "accumulate." We started to actually liquidate inventories not in November and December; we started to get inventories down as early as last May and June. But unfortunately, the backlog on the books of the producers was still high.

The reverse is now true. The textile industry is reaching a point where within 60 days, production will have to increase I think, production will see its low sometime in January or February. There are certain sections of the industry, I think, that are still going to be depressed; this is purely an internal factor. The same is true with durables. Liquidation has started little bit faster than in previous years. American industry has learned something else: Because of the high break-even point and cost structure, they began to curtail a little bit more rapidly, and that is exactly what is happening. The durable goods industries ought to start to reverse their trend not later than sometime late in the second quarter or early third. In nondurables, such as textiles, apparel, and shoes, the increase will start, I think, within 30 to 60 days; I would be surprised if production of textiles after seasonal adjustment goes any lower than in January and February.

Senator SPARKMAN. Now, the textile industry, while it has had some segments of it, at least, which have had pretty rought going, it has not contributed greatly to the unemployment figures, has it, because it has reduced the workweek rather than lay off people.

Mr. ZELOMEK. It is not entirely true. You take your rayons and acetates of the synthetic division, which is supposed to have been a stable industry are operating today at a very low level. The rayon and acetate yarn producers are probably operating about 58 percent of capacity.

The fact is that the liquidation in rayon and acetate in the past 18 months has been as great as in any 18 months in history.

Cotton textiles have held up comparatively well. The index of textiles and apparel production in December of 1953 was practically the same as the low in 1952, and was only very moderately above the 1950 low.

Textiles and apparel activity have come down faster than total industrial production. They declined 16 percent from the high of 1952 to the low of 1953, while activity in industry as a whole declined 7 percent, and part of it has been due to the decline in the synthetic division.

I think this time producers moved fast toward curtailment. Therefore, we have already reached what I would call replacement levels.

The same thing has been true of shoes. Now, in shoes, a very interesting thing developed there, and that is true of most of your consumer goods. In 1953 the production was 8 percent less than sales; in 1952, production was 7 percent higher than sales, so they ate up the accumulation. In 1950, they produced 30 percent more than they sold; in 1951 they sold 30 percent more than they produced, and that is what you have had in the last 4 years.

Mrs. WICKENS. On the point of your question, there has been a reduction of close to 100,000 in the number of employees in textile mill products in December of 1953, as compared with December of 1952.

The reduction in hours, however, is on the order of two and a half per week, so I would say that this segment has contributed rather importantly to the decline.

Senator SPARKMAN. I am glad you have those figures, and it does correct a misconception that I had.

Let me ask this one question, and this is a question that rather puzzles me: It was touched upon in a question by Mr. Bolling to Mr. Colm relating to the tax program. I believe you said that you thought that a good tax program would be one that would be balanced toward stepping up the power of the consumer to buy, and the expansion of production capacity.

The thing that puzzles me is this: If we are not now consuming all that our present productive capacity can supply, what is the purpose of a tax incentive to expand that production capacity? Is it to lend an incentive to do the normal expansion that ordinarily would take place, or is it extra expansion, and if so, when do we hope to use that extra capacity?

Mr. ZELOMEK. Well, I believe our major aim at the moment is more production at lower prices; lower taxes are helpful.

Senator SPARKMAN. That would call for improved equipment rather than plant expansion.

Mr. ZELOMEK. A combination of the two. I believe we are headed in that direction.

I have been disturbed about the rigidity of prices and costs, both to the consumer and producer.

If we can expand our capacity, plant and equipment, increase our efficiency and get increased productivity, our problem is then increased consumption. We can get that, but what we ran into in 1952 and 1953, whether it was automobiles or television, or what have you, was that we increased our production to a point where the price was not sufficiently stimulating, and the item was not new enough to encourage the public to buy.

Now, the reverse is developing, so if we can give the public more tax relief on the one hand and, at the same time, the businessman tax relief in the form of stimulus for further plant and equipment expansion, I believe we can accomplish more.

Senator SPARKMAN. I believe Mrs. Wickens, in her statement, referred to the increase in the price of automobiles. I am just using that as one example. Are prices coming down as we improve productivity or are they continuing to go up?

Mr. ZELOMEK. What happens, Senator, is very interesting. We tend to over-produce, we cut prices drastically during that period, and we move it. Then we start afresh, and we have done that in my 30 years of experience.

We get it up high enough, we accumulate inventories, and then we say, "We might as well get rid of it," and that is what we have done in 1937, we have done it in 1948–49, we have done it in 1951–52, and we are doing it now.

Mrs. WICKENS. May I clarify that statement? It was in response to a question of Mr. Bolling's about the January consumer price index, and I made a very limited reference to the fact that with new models coming out, the price which was paid for a new 1954 model is likely to be a little higher than the one in December for the December 1953 model.

Senator SPARKMAN. Just from this month to that month.

Mrs. WICKENS. Yes; it had nothing to do with long-run prices.

Mr. HITCHINGS. May I comment on that?

Senator SPARKMAN. I realize it was not a typical example, but there has not been any great reduction in the price of automobiles.

Mr. HITCHINGS. There has been in used cars, of course.

Senator SPARKMAN. I am talking about new cars. The used cars are not moving, apparently; I am talking about new cars.

Mrs. WICKENS. You will have to ask Mr. Hitchings that question.

Mr. HITCHINGS. There has been quite a reduction in the price of new cars, but this cannot be reflected fully in the BLS Consumer Price Index. This index reflects the list prices of new cars. The actual price the customer pays will vary considerably, depending upon market conditions.

The effective price to the customer, after taking into account trade-in allowances or cash discounts, has quite definitely declined from the levels prevailing early in 1953.

Senator SPARKMAN. Do you mean I can go into an automobile dealer and bargain for the price of a car?

Chairman WOLCOTT. Do you have an expression down there "A dime a dozen"?

Mrs. WICKENS. Senator, I just want to explain that we do the best we can, but they do not always tell us these trade secrets.

Mr. HITCHINGS. It is no fault of BLS; there is no method of measuring statistically for durable goods what the effective price is, because the price of the trade-in is an important factor. If the dealer, for example, over-allows $100 or $200 on a trade-in, there is no adequate method of showing that in the price index, so that——

Senator SPARKMAN. They always pull the Blue Book on me.

Mr. HITCHINGS. The effective price depends on market conditions. A year ago at this time, the demand was so great that the dealers were able to receive more than their normal profit margin.

I made the point in my earlier presentation that what we have had, both in the volume of sales and in prices of cars, is a return to more normal market conditions from the highly abnormal situation throughout the postwar period. It is not a healthy situation for the economy when people are constantly lined up waiting for cars, rather than for the dealers to go out and sell cars. From the standpoint of the consumer, it is a better market today than it was before in the war and postwar period.

Senator SPARKMAN. In other words, it is this thing we read about so often, a buyer's market rather than a seller's market.

Mr. HITCHINGS. That is correct.

Senator SPARKMAN. Or a move toward it.

Mr. HITCHINGS. But it is a perfectly normal situation to have a buyer's market. This seller's market over the war period and postwar period has been a wholly abnormal kind of a situation. The transition from this abnormal market might seem like quite a drop, but it is only a return to normal conditions.

Senator SPARKMAN. I wish I could take a couple of you fellows with me when I visit my constituents at home; you are comforting.

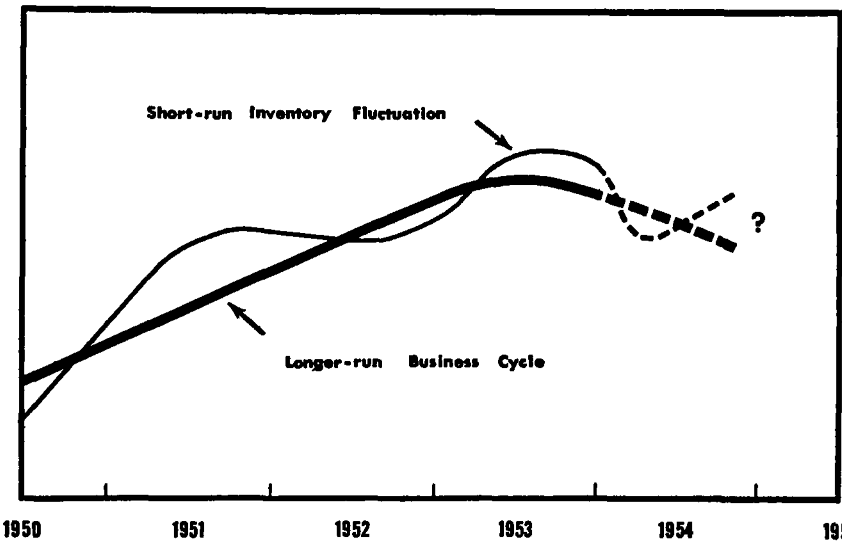
Mr. ZELOMEK. Senator, I think there is one question your constituents must be asking: What are the normal channels of distribution for durable goods. A new form of distribution has arisen in the last several years—of what we call discount houses for the buy of washing machines, stoves and televisions, and so forth.

Chairman WOLCOTT. I think there was an article in Reader's Digest about these discount houses.

Mr. COLM. Mr. Chairman, if I may be permitted very briefly to respond to the Senator's question, too. The reason why I asked to say a word is that during the last few minutes we heard that the inventory liquidation is virtually over and, at least in the automobile market, we are returning to "normal." At least for myself, I want to express a somewhat greater concern than would be described by simply saying that we are now virtually through the inventory adjustment, and now everything is fine, we can be satisfied.

I do not know how serious the situation is, but I think it is the better part of wisdom to hope for the best and prepare for the worst. I see the possibility that we may be in a situation which I have outlined here on a piece of paper, that from 1950 to a peak in 1953 we have been in an upswing, and unless something happens in the international scene, which we do not expect to happen under the present program, we may be here in a downswing.

(The chart referred to follows:)



Now, around this longer run swing we have an inventory accumulation in 1953 which even lifted us up above what this median line shows, and now it goes a bit down, and we may be here near the point where the short-run inventory fluctuation may soon move up again a little. But if the underlying line shows a downswing, then we should not draw the conclusion from this that we are through all the trouble, and now we have only good weather and continued growth ahead.

I think personally—I am most humble with respect to any prediction about the future—I burned my fingers, as others did, too—but I want to point out that we have the opportunity—the legislators have the responsibility—to prepare programs to counteract with a siuation. In short, you may have obtained a somewhat overoptimistic picture during the last few minutes of this discussion. I am not alarmed, certainly not. I think such predictions as Colin Clark has made, and others, are utterly without foundation. But the other danger of a certain overcomplacency, I think, is equally serious.

Mr. HITCHINGS. Senator Sparkman, may I make one more comment I intended to make in regard to car prices? For the people in the income groups under $3,000, in particular, it is the used car price that is much more important than the new car price. In the income bracket under $2,000, 78 percent of those who own cars bought them used; and in the $2,000 to $3,000 income bracket, 70 percent that own a car bought their car used. The drop in used car prices has been a very important factor to these income groups, as well as the change in new car prices.

New car buyers are concentrated much more in the middle and upper income groups. Used car buyers are concentrated in the lower middle and lower income groups, where a reduction of the kind that we have had in used car prices is a great stimulus to car ownership.

Chairman WOLCOTT. Are there any further questions or statements by the panel?

Mr. LIKERT. Mr. Chairman, may I make one comment? There is one important area we have not talked about; I do not know whether you call it durable or nondurable consumer goods, but that is vacations. It is an important area in which consumers are making considerable expenditures, and it is one we have relatively little information about. I think it is an area in which people will make important expenditures in the future, but those expenditures may change from year to year. It is an area about which we should know more, and I hope we will collect such data.

Chairman WOLCOTT. We in Michigan are peculiarly subject to those changes.

Senator SPARKMAN. That is a good suggestion.

Chairman WOLCOTT. Well, I again want to express the appreciation of the committee for your having come down here and contributed to our thinking. You have done a very splendid job for us, and we appreciate it very much.

The discussion tomorrow will be on the State and local government outlook and the implications for Federal economic policy. We will meet in this room at 10 o'clock.

Without objection, this meeting of the committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:55 p. m., Tuesday, February 9, 1954, the joint committee recessed until 10 a. m., Wednesday, February 10, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 10, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:20 a. m., in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representatives Wolcott, Talle, Patman, and Bolling.

Also present: Grover W. Ensley, staff director and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We are met this morning to discuss the State and local government outlook and implications on the Federal economic policy.

We have quite an outstanding panel here this morning of representatives of city governments, State governments, and State and local finance, and we are all very happy that you gentlemen are here and taking this time out to participate with us.

Mr. Robert Moses, the coordinator of the office of city construction of the city of New York thought he might be here. He had expected to be here, but he has found it impossible for him to do so. But he has sent a statement.

Without objection, Mr. Moses' statement will be inserted in the record at this point.

(The statement submitted by Robert Moses, New York City construction coordinator, is as follows:)

MEMORANDUM ON PUBLIC FACILITY NEEDS SUBMITTED BY ROBERT MOSES, NEW YORK CITY CONSTRUCTION COORDINATOR

At the outset I want to make it quite clear that I am no authority on cyclical depressions or recessions. I have no idea whether there will be a depression and how deep it may be if there is one or as to how far we shall recede if there is a recession. I do, however, have strong convictions that in such times the Federal Government must assume substantial obligations to stimulate industry and afford employment to promote early recovery. This obligation is inescapable. Stimulation of public works is an important factor in recovery. Advance planning of public works for such periods should therefore be recognized as a continuing responsibility of the National Government, working with States and municipalities. It is senseless to proceed on the theory that cyclical major slumps in business and employment are an unexpected, unmerited, and tragic visitation not to be anticipated and to be dealt with only on the basis of hastily improvised, ineffective, and wasteful emergency measures.

A full realization of the economic interdependence of the world will no doubt cushion the shocks of cyclical bad times. Meanwhile, the depth, dimensions, and duration of a depression can be greatly reduced by intelligent advance planning which will control inflation in periods of boom and reduce deflation in recessions. An unanticipated and uncontrolled recession can run Governmet into the red almost as far as a war without providing adequate employment for its duration.

During the depression of 1932 to 1938, $24 billion was the cost of a badly fumbled work-relief program. Of this, $18½ billion were Federal funds, the balance State and local. These funds were, of course, raised from current revenues as well as by borrowing.

Breaking down these figures, of the $24 billion total, $16 billion was spent on work relief including WPA, CWA, FERA, CCC, and other alphabetical manifestations of made work. The balance of $8 billion was spent on loan-and-grant projects of the RFC and the PWA. The average cost per capita per year for labor and equipment was about $1,000 for WPA projects and $3,000 or more for PWA projects. A total of 8½ million individuals obtained employment at one time or another during this period. In New York City alone over 700,000 persons were employed throughout the 7-year period, reaching a peak in 1935 of 260,000 at one time. At this peak over 80,000 individuals were assigned to the city park department program alone.

Because of the lack of advance plans, worthwhile projects were delayed or abandoned. The money was there, the men were ready to go to work but the blueprints were not available. In New York City the park department hastily assembled an emergency technical staff of 2,500 individuals in order to prepare plans and inspect relief work. Throughout the Nation makeshift devices were restored to in an effort to minimize boondoggling and find skilled work for skilled labor. This led to all sorts of freakish stunts. For example, skilled laborers in New York and other cities were not permitted to work more than an average of 5 days a month in order to keep within the $84 maximum permitted per month. This meant recruiting crews for 3 and even 4 shifts in order to carry on operations without interruption. Some of the skilled men required were not even eligible for relief and some had other jobs the rest of the month.

All intelligent students of this problem prefer permanent, long-range self-supporting improvements to boondoggling or maintenance work. Theoretically WPA is cheaper per man but practically it is a poor way of employing people. PWA on the other hand indirectly promotes the employment of labor in mine, factory, and transportation. The RFC was one of the few useful agencies of recovery. Its guiding principle was the use of every conceivable means to put a project on a loan-and-grant basis before restoring to a straight grant, and the performance of as much of the work as possible by contract as distinguished from force account.

If all the brains, energy, and ingenuity of private enterprise are brought to bear, and if labor is offered fair rewards, industry will no doubt be prepared to take up much of the slack which necessitates Government depression spending. It is inconceivable, however, that all needed employment in bad times can be provided by private business.

Public works admittedly can take care of only a fraction of a depression employment problem, but it is an extremely important fraction. It is, as has often been pointed out, a marginal area in which men out of work will stew around helplessly unless the Government is ready to meet their problems.

There is not a State, city, or municipal subdivision in the country which can, on its own, finance a depression construction program sufficient to make a real dent in the employment problem. Federal assistance is required. The alternatives are greatly increased soldier bonuses, pensions, insurance and other allotments, another WPA program on a very large scale, an American security program approaching the British scale devised by Baron Beveridge of Tuggal, then Sir William Beveridge, but in terms of American money and on the basis of our enormously higher scale of living, and finally, as a last resort, home relief and the straight dole with all of its crushing implications of failure and futility.

Idleness and home relief are the worst depression expedients; made work is a shade better; genuine needed, durable, public improvements afford honest, dignified employment and permanent benefits; works which are wholly or partly self-supporting are at the very top of the list. These distinctions are palpable, and smart advance planning always will have them in mind.

Preparedness against recession is just as vital as preparedness against enemy attack and in either case time is required to make ready. It is difficult to estimate the size of the shelf of plans originally prepared in anticipation of a postwar depression but obviously as more and more construction has been done, the shelf has shrunk.

The President's Council of Economic Advisers has recently gathered some statistics covering the backlog of plans for recession public works prepared by States and municipalities in recent years with funds of Federal, State, and local origin. These backlogs represent efforts to avoid being caught again without some worthwhile programs and condemned to made work and handouts in the event of serious unemployment. These studies seem to me to be on the overoptimistic side and to require careful checking. One set of figures for example purports to show that land has in most cases already been acquired for these improvements. I doubt this very much.

New York State, for example, has a very large shelf or backlog of recession plans, most of them complete. These were made with Federal, State, and municipal advance planning funds. They run into billions of dollars measured by present building costs, but these projects are being steadily reduced by current construction, and time and other changes necessitate reconsideration and revision of those designed several years ago.

It must be assumed that backlog plans for projects all over the country have become obsolete and require at least partial revision. To bring these plans up to date would require at least 6 months and to prepare plans for new projects would add another 6 to 12 months.

A Federal appropriation of $25 million should be made for distribution to local agencies to screen existing plans and to bring them up to date. This money should be in the form of outright grants without any requirement that it be returned. Loans, even interest free, would not accomplish the desired result.

As to the type of project the Federal Government should assist, it is urged that existing recognized, established, and respected programs be accelerated. There is little need for the creation of sprawling new agencies to plan and construct projects in competition with existing local, State, and Federal agencies now performing the same type of construction. There are many strictly Federal construction projects of importance and usefulness for which at least preliminary plans are available. Final plans should be made and schedules of emergency construction prepared. Another and even more important field of recession construction is that of Federal aid. As examples, housing and highway construction are at the top of this list. A huge volume of such construction can be gotten under way through existing agencies.

The Federal Bureau of Public Roads sets standards, determines what routes shall have Federal aid, gives advice and help, and is responsible for integration of State systems, continuous travel, military and emergency needs, and the encouragement of a nationwide program. Over the years this agency has functioned well. Without it, we should have no national through routes uniting all sections of the country, few comprehensive long-range State programs, no uniformity of design, no progress in the less populous and prosperous States and municipalities, no official leadership, no continuing congressional support, and no formula for Federal aid. The Federal machinery is there. It has public respect. All that is required to implement a greatly expanded program in a recession is increased funds and legislative authorization.

There are 48 State highway departments all equipped to construct in their particular areas, using the contractors, labor, and materials most adapted to the locality. Cooperating with the 48 States are the innumerable local jurisdictions, including the larger cities, where the greatest impact of unemployment will be felt. To these jurisdictional units must be added the special regional bi-State bodies, the State and municipal public authorities and turnpike commissions, which depend for their financing upon tolls usually without involving general public credit, but in some instances backed by public credit to reduce interest charges.

There are about 40,000 miles of main arteries on the so-called interstate system. The construction of this system, comprising about 1 percent of the road mileage of the country and estimated to carry 20 percent of the rural traffic, would cost at least $11 billion. Included are highways potentially wholly or partially self-liquidating. The present policy of the Congress and the Bureau of Public Roads, which bars the expenditure of Federal highway funds on toll highways, should be reexamined. There are many projects on the interstate system other than those which have already been proposed for toll financing which could be built if some Federal and State grants were made available. Among improvements incidental to highway construction is the off-street parking facility. Federal-aid highway legislation should make joint financing of highways and garages possible, especially in an emergency.

It has been fairly well established that to bring the highway system of the Nation up to date, $5 billion a year will be required for 10 years. This program could be speeded up in a recession. Congress should authorize $175 million per year for the next 2 years for plans. In the event of a recession, the formula for sharing costs should be modified from the present 50–50 basis to provide that the Federal Government pay two-thirds and the States one-third. Grants up to one-third of the cost of partially self-liquidating projects would add greatly to the present program.

Public and quasi-public housing and slum clearance are somewhat similar to highways as a source of additional employment in a recession. They are based upon the same principle of dependence upon States and localities for actual construction with the Federal Housing and Home Finance Agency setting standards, giving help and advice and sharing costs. Here again existing machinery is available for quick expansion of work, particularly in the cities where the need is greatest. The local agencies are organized to build as rapidly as funds are made available. Many of the problems which must be dealt with today, and particularly those having to do with the relocation of tenants, can only be handled on a local level.

With comparatively minor changes in the existing housing laws and rules an enormous amount of pump priming could be brought about without waste or delay. Four simple steps would make this possible:

1. The President has recommended that title 1 of the Housing Act of 1949 should be broadened. There is available $250 million in capital grant funds and $700 million in loan funds which is sufficient to carry this program along until Congress could replenish funds. However, the limitation of 10 percent in grant or loan funds to any one State would have to be eliminated and control of the distribution of the money left to the Administrator of the Housing and Home Finance Agency to decide where he found the greatest need.

2. The public housing recommendation of the President for 35,000 units per year could be expanded to a program of 135,000 units per year under the present National Housing Act of 1949. An amendment would also allow the President to disregard present limitations in an emergency. This would provide $1,750 million of housing construction quickly with no increase in the eventual subsidy contemplated under the act. The President could in fact expand this program under the present act to 200,000 units in any one year in an emergency.

3. The National Association of Home Builders states that there is need of 1,400,000 homes per year for the next 10 years. Such a program would have to be implemented through FHA insurance. A comprehensive program of FHA insurance has been recommended to Congress. In a time of recession, however, the FHA would have to combine with these new laws a policy of liberal interpretation of provisions affecting private builders. This would generate a tremendous building program financed by private funds.

4. Other special cases will always arise where Federal help will be required. As an example, New York City has a serious problem brought about because of the influx of hundreds of thousands of Puerto Ricans who not only require housing but also schools, recreation and health facilities. Housing legislation, especially in emergencies, should be made flexible enough to include the cost of these essential facilities in housing financing.

In addition to the recommendation that $25 million be appropriated to sift and bring existing State and local works plans up to date, it is recommended that further plans for projects including schools, hospitals, public buildings, water supply, and recreation facilities be prepared in the larger urban areas where too little advance planning has been done and where unemployment may be expected. These plans should be prepared by local agencies with Federal participation to the extent of two-thirds of the cost. In the event of an actual recession neither States nor municipalities could seriously be expected to finance these projects. It would almost certainly be necessary for the Federal Government to defray two-thirds of the cost of construction.

A new program involving Federal aid should include multipurpose civilian-defense improvements—useful day in and day out and indispensable in the event of atomic attack. With all the agitation about civilian defense, official brass and bureaucracy snore at mahogany desks and decorate cuspidors. The Federal, State, and city governments are not even together on some simple relatively cheap projects, such as subway mezzanine, pedestrian passages in New York City at congested midtown Grand Central, City Hall, and Cadman Plaza.

When unemployment reaches a certain point, which should be determined in advance by the Congress, the President should make a finding to that effect and order that the public-works program be accelerated on an emergency basis. Standby legislation to set up this machinery should be passed at this session.

As indicated previously, the program should be administered, insofar as possible, by existing agencies, Federal, State, and local. It would be necessary, however, to set up an administrator, preferably a special assistant to the President, to coordinate and supervise the works program, beginning with the reexamination and revision of plans made in the past and establishing in the process the State and other machinery through which the Federal Government will operate. Because of its size and employment complexities, New York City should, as in the last recession, be regarded as a 49th State. Since the administrator would depend largely on existing agencies, only a very small, compact staff would be required. The loan program would require that a lending and guaranteeing agency somewhat similar to the original Reconstruction Finance Corporation be established, perhaps under the Secretary of the Treasury.

The main objective of this program should be to employ large numbers of workers in the construction economically of needed, durable, worthwhile facilities. The most efficient way of performing such work is by contract. Nevertheless we must employ in a recession as many persons as possible who are out of work. Therefore, regulations should provide for the compulsory employment by contractors of people taken from relief rolls excepting technical, supervisory, and highly skilled personnel. No doubt contractors will cushion their bids if they must take much of their help from relief rolls, but this requirement is essential.

To summarize, I suggest:

1. An executive assistant to the President to administer an emergency public-works program.
2. Appropriation of $25 million for grants to localities to review and bring up to date the existing backlog of State and local advance plans.
3. Planned emergency expansion of Federals works, Federal highway and housing aid and Federal aid to worthwhile screened, up-to-date State and local improvements.
4. Standby powers authorizing the President to make a public finding of emergency when unemployment reaches a certain point fixed by Congress, and to institute emergency pump priming and employing measures.
5. Creation of a temporary emergency lending agency patterned after the original Reconstruction Finance Corporation, probably under the Secretary of the Treasury, to encourage wholly and partially self-liquidating projects by loans and guaranties.

Chairman WOLCOTT. Mr. Manvel, we would be very glad to have you proceed.

Representative BOLLING. Mr. Chairman, before you start the proceedings, I would like to raise a minor point. I am in entire sympathy with the procedure that we followed, of having the statements from all panelists read into the record prior to questioning; but it is working out in such a way that quite often there is a realtively limited time left for questioning, and I would hope, with no discourtesy intended to any of the members of the panel if they would attempt to follow the rules laid down, that their statements be limited to 10 minutes, so that there will be some time left for questioning.

Chairman WOLCOTT. I think the panel is small enough this morning so that we will have plenty of time, but we will see, as we go along. We do not want the panelists who spent days, and perhaps weeks, on their statements to be cut off unnecessarily. So, we had in mind in the neighborhood of 10 minutes.

Representative PATMAN. Mr. Chairman, I am in sympathy with what you say, that these gentlemen have gone to a lot of trouble to give us this valuable information, which we appreciate, and we want to show them every courtesy. However, I am in sympathy with Mr. Bollings' request, that it be confined to 10 minutes each, so that we will have time to question the witnesses, with the understanding that their entire statement will go in the record at the point where they deliver their 10-minute statement.

Chairman WOLCOTT. I did not interpret Mr. Bollings' statement as a desire on his part that we change the procedure by which the panelists proceed with their statements without interruption.

Representative PATMAN. That is right.

Chairman WOLCOTT. The panelists' statements will be read into the record and then the whole subject will be open for discussion. The panelists may then feel at liberty to discuss the matter with each other, and, of course, the members of the committee will ask such questions as we feel are necessary to bring out the subject best.

STATEMENT OF ALLEN D. MANVEL, CHIEF, GOVERNMENTS DIVISION, BUREAU OF THE CENSUS

Mr. MANVEL. Since its establishment a half century ago, the Census Bureau has regularly gathered and reported basic statistics on the finances of State and local governments. While census data deal only with amounts of actual past transactions, they provide much of the basis for the current estimates and projections concerning the State and local government sector which appear in the national income and product accounts, as presented in the Economic Report of the President.

I am very happy to report and comment briefly on the present and prospective magnitudes of this economic sector, in the light of recent and historical census statistics. However, any expressions of opinion as to possible future trends are offered in my individual capacity rather than as representing official attitudes or projections of the Bureau of the Census.

Chairman WOLCOTT. May I interrupt at this point to say that throughout these panel discussions, it is understood that the panel is representing their own views, and are not necessarily reflecting the views of the departments or municipalities or States they represent. Thank you, Mr. Manvel.

Mr. MANVEL (continuing):

1. THE MAGNITUDES INVOLVED

State and local governments comprise a very sizable area of the national economy. They employ considerably more than 4 million persons, or about 7 percent of all gainfully employed people in the Nation. State and local taxes total about $130 per capita. These governments are now undertaking about one-fifth of all the construction in the Nation.

When statistics for these governments are fitted into the summary framework of national-income accounting, some phases of their finances are necessarily subordinated or handled in such a way that the gross scale of State and local government transactions is not readily apparent. In particular, for example, national-income and product statistics do not reflect the significant amounts of State and local borrowing and debt retirement; they include transactions of the nationwide unemployment compensation system as part of the Federal Government sector rather than as State government amounts; and they show only a net difference figure for operations of utilities and other semicommercial operations of State and local governments which have revenues of more than $4 billion and current expenditures exceeding $3 billion a year.

Taking account on a gross basis of all external transactions of State and local governments and their various agencies, one arrives at income and outgo aggregates which exceed considerably the receipts and expenditures of this sector which appear in statistics relating to national income and gross national product For the year 1952, such a comparison would show (in billions):

In national income and product statistics (calendar year):	
Total receipts of State and local governments	$25.7
Total expenditures of State and local governments	25.8
In census statistics on State and local government finances (for fiscal year ended in calendar 1952):	
Total revenue from own sources	28.5
Intergovernmental revenue (from Federal Government)	2.6
Total revenue	31.1
Borrowing	3.8
Total, revenue and borrowing	34.9
Expenditure	30.9
Debt redemption	1.8
Total, expenditure and debt redemption	32.7

In developing the following comments, it has seemed useful to go beyond the framework of national income and product statistics to consider some phases of State and local finances which do not explicitly appear there.

Developments in this sector are materially influenced by trends in the economy as a whole. The following comments are therefore set in the context of two sets of alternative premises which receive considerable emphasis in the Economic Report of the President: (1) Continuance of a high level of general economic activity, accompanied by little change—either upward or downward—in the overall price level; and (2) a material downturn in economic activity.

2. HIGH ECONOMIC ACTIVITY WITHOUT PRICE-LEVEL CHANGE

Prospects for State and local governments can be considered under this premise in terms of various major segments of their finances.

Revenue: With a continuing high-level economy, some further rise in all major components of State and local government revenue can be anticipated. A stable price level, however, would make the rise considerably less rapid than that of recent years, when much of the increase reflected the effects of inflation. Additional revenues can be expected to develop from new and higher rates of charges for services, from higher property tax valuations and levies in some areas where they have still lagged materially behind recent inflationary trends, and from scattered imposition of other new or increased tax measures by individual States and major local governments.

Operating expenditure. Continuing growth in the volume of activity and current operating expenditure of these governments can reasonably be expected. However, with price stability, the rise would be considerably less rapid in money terms than that of recent years. Salaries and wages make up the bulk of operating expenditure of State and local governments. Since 1946, their personnel costs have more than doubled, although the number of persons they employ has increased by less than one-third, indicating that a considerable part of the rise in the money volume of State and local operating expenditure since World War II has resulted from inflation. There are still, nevertheless, strong pressures toward an increased volume of State and local government services—stemming largely from population growth and relocation. One of the most important is the rise in school age population and thereby in school enrollment, estimated at about 1.4 million or more than 4 percent annually for the years just ahead. It may be noted that public schools in 1952 accounted for more than one-fourth of all general expenditure of State and local governments. If public universities and colleges are included, the fraction for education approaches one-third. Even if prices generally are stabilized, some further rise in average pay rates for State and local personnel may well occur during the next year or so. Any such change would add to the increase of perhaps 3 to 5 percent annually that may otherwise be expected in operating expenditure of these governments.

Transfer payments. The total of more than $3 billion annually which State and local governments spend in this form may be expected to move up slightly with a stable economy. For the major component, public assistance payments, some continuance upward of benefit rates seems likely to outweigh the gradual decline in number of beneficiaries which is accompanying the growing scope of the Federal old-age and survivors' insurance system. The other important component, retirement benefits to former State and local government employees, has been moving up by something approaching $100 million annually.

Construction and other capital outlay. A continued high level of general economic activity suggests also at least maintenance and probably a further increase in the volume of capital outlay undertaken by State and local governments. Such spending in 1952 represented about one-fourth of all their expenditure. Although such outlays have been recently running at record dollar levels, there exists—as the Economic Report of the President emphasizes—a considerable volume of unfulfilled capital needs resulting from population growth and other recent changes, as well as from substantial deferral of public improvements during World War II. Present and prospective levels of outlay expenditure should make some headway on accumulated needs for hospital and sanitation facilities; it seems more conjectural whether school outlays will exceed requirements of additional enrollment alone, and whether highway outlays will more than keep pace with increasing levels of traffic and urban congestion. Rapid growth has been occurring with regard to toll highways, but expenditure for such facilities still is only a minor fraction (about one-twelfth in 1952) of all highway spending of State and local governments. Despite the existence of sizable needs for capital improvements, it would seem doubtful that—with a stable economy and price level but lacking any drastic financing change, such as sharply increased Federal grants for construction purposes—State and local outlay spending will increase annually by more than perhaps around 10 percent.

Borrowing and debt redemption. The foregoing comment as to outlays carries over to indicate also a continuance and possibly some further rise in recent record dollar levels of debt issuance by State and local governments. By last July, total outstanding debt of State and local governments had reached about $33 billion, or more than double the 1946 total. While this is a considerable rise in dollar terms, the 1953 amount was only about one-tenth as great as the gross national product of the year. The comparable fraction back in 1940 was about one-fifth, and in the depression year of 1932 the gross national product was only about 3 times as great as total indebtedness of State and local governments. Because of the long-run decline which has occurred in interest rates, annual interest expenditure of these governments ($724 million in 1952) has been considerably below and is only now approaching the amount being so paid out 25 years ago, when the dollar volume of outstanding State and local government debt was only about two-thirds as much as the present total. The bulk of the debt issued by State and local governments in recent years has been in the form of serial bonds, including many issues calling for an early beginning of retirement installments. Statistics are lacking as to the overall maturity schedule of outstanding State and local debt, but it seems reasonable to expect a rapid increase in the amount of State and local obligations coming due, with a resultant rise in amounts required annually for debt redemption ($1.8 billion in 1952). Thus, revenue and borrowing plans of State and local governments will have to take account of increasing debt service requirements, as well as of the financing of current operations, transfer payments, and capital outlays.

3. ECONOMIC DOWNTURN

The Economic Report of the President considers at some length Federal problems and policies in the event of a material decline in the level of the Nation's productive activity. It is therefore appropriate to shift from the assumption applied above, and consider the effects such a downturn might have—in advance or in the absence of major environmental changes, such as sharp increases in Federal grants—upon the finances of State and local governments.

Volatile components: Two major areas of State and local finances would be most promptly affected by a material decline in economic activity. As it is intended to do, the nationwide system of unemployment insurance would experience sharply increased levels of benefit expenditure and declining revenues from contributions. The responsiveness of this area was illustrated during the 4 fiscal years 1948 through 1951. In that period, economic slackening and then resurgence shifted the relation between unemployment contributions and benefit payments from a surplus in 1948 of $303 million to successive annual deficits of $142 million and $817 million, and then to a surplus of $421 million. Although less sharply, State and local government spending for public assistance would also rise promptly with an economic downturn. A rise in categorical program costs (running a little over $2.0 billion a year) would also involve increased Federal grants by something over one-half as much, but the residual "general relief" category—costing around $300 million a year—is entirely subject to State and local government financing.

Other transactions: Only a drastic and long-continued drop in the level of economic activity would seem likely to change materially the aggregate volume of other major components of State and local government spending: the upward trend in payments for debt service and for retirement benefits is relatively fixed; current operation spending, dominated by personal service costs, is highly inflexible downward (even with the stringent manpower conditions of World War II, employment by State and local governments dropped less than 200,000 over a 4-year period, or roughly 5 percent); and, with the long interval involved between authorization and completion of major projects, the existing level of capital outlay by State and local governments has considerable momentum. The yield of some important revenue sources—primarily income and general sales taxes of State governments—would drop promptly with an economic downturn. These provide, however, only about one-seventh of all State and local government revenue, and the upward trend in other more sluggish revenue sources (especially the property tax) might actually offset for a year or more, as to total revenue, the drop in the responsive taxes. The total level of borrowing probably would not be cut back materially by an economic downturn of limited severity and duration. Even in the great depression, issuance of long-term State and local debt in 1931 was down only about one-seventh from the 1929 level.

"Balances": There has been a sizable growth, during the past decade, in the total volume of State and local holdings of cash and securities. The most recent comprehensive and detailed census figures, for 1952, show the following amounts by purpose of holding (in billions):

Reserved for retirement of long-term debt	$3.2
Unemployment compensation	7.8
Employee retirement	6.4
Other insurance trust systems	1.0
All other	15.5

With an economic downturn, the unemployment compensation holdings (currently approaching $9 billion) would be drawn upon materially, as already indicated. Employee retirement fund holdings, however, are so organized and financed as to involve asset accumulation approaching $1 billion annually, and the other insurance trust and debt offset amounts are also rigidly reserved. Thus, the "all other" holdings represent the bulk of any cushion potentially available to sustain remaining State and local payments above the level permitted by revenue and borrowing. The aggregate amount so reported (about half held by State and half by local governments), must be considered in relation to the volume of State and local transactions (involving in 1952, exclusive of insurance trust amounts, $29.2 billion of expenditure). Moreover, the total is scattered in uncounted funds subject to various types and degrees of restriction, under the jurisdiction of a great number of individual governments.

4. SUMMARY

Under either of the assumptions applied above, it appears that the State and local government sector will have a sustaining and healthy influence upon the economy. With a continuing high level of productive activity, its provision of essential current services and public facilities will continue to rise, making an important contribution to the total income, product, and productivity of the Nation. With some economic decline, changes in State and local government finances will altogether tend somewhat to operate against, rather than in conjunction with, the downward forces.

This apparently cheerful description of an "overall" situation needs to be supplemented, however, by recognition of two other facts which will not doubt be emphasized in other comments concerning this sector.

First, any set of aggregates covering finances of State and local governments inevitably fails to reveal the wide variety of conditions applicable to individual governments. As among the 48 States and nearly 120,000 local governments in the Nation, there is a tremendous range in operating and financial prospects, with either continuing economic progress or a material downturn. Some State governments now obtain more than half of all their tax revenue from volatile income and general sales taxes. There is little direct comfort or aid to officials of such States in knowing that a sharp drop in the yield of these sources in the event of a limited recession would probably be offset, in the national picture, by a continuing rise in property-tax revenue of many local governments. In other words, even within the framework of a basically healthy contribution to the economy by State and local governments, there are important differences of situation as between State and local governments, rural and urban local governments, metropolitan cities and other types of units, and individual governments of similar type and size.

Secondly, and even more important, it may be suggested that some of the factors which tend to make this sector a stabilizing influence in the event of economic downturn also involve, by the same token, troublesome potential problems for State and local governments. A sharp rise in public-assistance payments would, presumably, help to stem a downward economic spiral, and a similar effect may be expected if operating expenditure of State and local governments is substantially maintained even in the face of some decline in their revenue from volatile taxes. The primary responsibility of the administering official, however, is to take account of the legal capacity and financial condition of his own government, even where actions thereby indicated—for instance, toward increased taxes or curtailment of outlays and current operations—might seem to run counter to desirable fiscal policy for the Nation as a whole. Perhaps this dilemma offers a challenge for exploration of some new devices and relationships as among the Federal Government and State and local governments.

Chairman Wolcott. Thank you very much, Mr. Manvel.

We are glad to have with us this morning Mr. Clarence Elliott, city manager of Kalamazoo, Mich.

STATEMENT OF HON. CLARENCE ELLIOTT, CITY MANAGER, KALAMAZOO, MICH.

Mr. Elliott. Mr. Chairman, members of the Economic Committee, ladies and gentlemen, this discussion will be divided into three major parts:

1. Outlook for the coming year or two in Government expenditures and finance;
2. Problems of Government expenditure and finance in case of an economic recession;
3. Certain conclusions and recommendations.

OUTLOOK FOR THE IMMEDIATE FUTURE

It appears at this time that local government expenditures for the next year or two will continue at about the same rate as for 1952 and 1953. There seems to be a slight but steady rate of increase over the past few years that can be expected to continue for the next year or so. Any substantial increase in municipal expenditures does not seem probable. The expansion of municipal expenditures is limited by 2 or 3 factors which are beyond the control of the local governments. First, the local expenditures are more or less tied to the business cycle. This is due to the fact that local policy decisions are affected directly by attitudes and psychological factors in the community which tend to be expansive or restrictive, according to the level of economic activity. Furthermore, the main revenue sources of local governments are based on property valuation, and in some cases level of business activity; and thus the revenues of cities and local communities vary directly with the price level and level of economic activity. Second, the local government's financial powers and practices are strictly circumscribed by State law. The sources of revenues, the tax rates, and borrowing practices and limits are all limited by State law. The fact that the States have allowed the cities only limited sources of revenue and only a limited expansion of revenue sources in the past several decades has restricted local governmental activity.

The general property tax is still the major single source of revenue for nearly all cities. It is the consensus of most authorities on local governmental finance that this general property tax is probably being utilized as fully as it can or should be now. Because of reasons of administration and equity, as well as economic reasons, it does not appear that the cities can get much more from the general property tax. Any long-term readjustment of governmental functions must take this into consideration. If local governments are to carry a larger share of the total governmental load and thus aid any process of decentralization, or even if they are to keep up their present share of total governmental functions, they must have additional sources of revenue made available to them. The only power to grant additional sources of revenues lies with the States. So far, this problem has received far too little attention from the State and Federal Government. Thus, while there has been over the past several years some steady increase in activity of local governmental expenditures, this rate of increase will, for above reasons and others, remain moderate even though economic conditions remain favorable. This appears true both for the short run and the long run unless certain adjustments are made.

PROBLEMS OF LOCAL GOVERNMENTAL EXPENDITURES AND FINANCE IN CASE OF BUSINESS RECESSION

In case of a business recession, local governmental units could not and would not maintain their present level of expenditures. It is probably true that the present level of expenditures would remain more or less constant for 6 to 12 months, and then a tapering off would begin. The degree to which expenditures would fall off would depend on (1) the degree of business recession; (2) upon the development of new emergency financial arrangements for cities. In case of a recession revenues would fall at the present tax rates and it would be very difficult to increase rates sufficiently to offset the losses in revenues. It is exceedingly difficult politically to raise any taxes, especially local taxes, in such a period. Furthermore, the cities are very limited in their ability to borrow. They are limited by State debt limits, by limited financial resources, and by local dislike for the high costs of borrowing. Furthermore, cities, as we all know, are in a position similar to the private individual when borrowing and cannot engage in deficit financing, as can the Federal Government. To a certain degree, of course, States are in the same position.

Thus, if cities were to maintain a level of expenditures similar to the present level, in case of a recession it appears that they would have to receive some assistance from the Federal Government. However, it is my feeling at the moment that cities are not thinking of such recession aid in terms of hand-outs or grants (except in severe disaster areas). What the cities would actually need, of course, would depend upon the seriousness of the economic recesssion. Generally speaking, it would seem desirable to think in these terms: (1) If the recession picture were not too serious the city should look to the Federal Government for interest-free or very low-interest rate credit to maintain its level of expenditures. Providing the unemployment and relief problems are not too great, it would seem to me that if a moderate amount of credit were available this would solve the problem. (Perhaps some figure such as $100 per capita might be made available. This would not be a strain on the Federal Government to provide credit, and it would give the cities a substantial amount of capital to draw on.)

Before going further it should be stated, of course, that depressions are a national phenomenon, with their causes and effects on a national or international scale and must be attacked or alleviated on a national scope. There is no thought here that local governments could stem or offset a depression. However, local government expenditures are an important part of total expenditures for goods and services. It would seem desirable to stabilize such expenditures over periods of cyclical downswings. The pattern of local governmental expenditures could be and should be arranged so as not to accentuate economic variations or dips. Thus, the suggestion for such credit or capital advances.

This credit arrrangement for minor recessions should be looked upon as an advance, rather than a loan. That is, the credit would be advanced not to finance expenditures that the local governments could normally not finance, but merely to allow the local units to step up the timetable for expenditures that they would normally be making in the near future. There would thus not necessarily be an increase in the total expenditures in the long run. This would merely allow local units to make these expenditures at a time when they would do the most good from the standpoint of employment and economic activity. If such Federal credit extensions were used for these purposes and this was well recognized, they would not greatly impair the local units' ability to get additional loans from normal private sources if they so needed and desired them. It would be important, in order to make such a program of advances effective, to exclude the advances made to local governments from the State debt limits. This might require

State legislative action but if properly approached could probably be worked out.

(2) In case of a very serious depression (which at the worst is not expected in the near future) such a program of advances would have to be followed by outright grants and similar special arrangements.

CONCLUSIONS AND RECOMMENDATIONS

Barring any unforeseen slump in the level of economic activity, the level of local governmental expenditures can be expected to remain fairly stable or perhaps increase slightly. The financial solvency and stability of these units should remain strong. In the face of increasing complexities of our society and the increasing demands upon governments for services, the local units are confronted with a real problem. They cannot meet increased demands for services from present revenue sources. Their tax sources are not commensurate with growing service demands. If further services are to be provided they will have to be performed by other levels of government unless some rearrangement of tax sources is accomplished. This, of course, would be a further increase of centralization that many feel undesirable.

Probably the most important and most constructive step that the Federal Government could make at this time in the area of intergovernmental financial problems would be the establishment of a bureau or agency of local governmental affairs. This bureau would serve as a central office for gathering statistics and information about local governments and their functions, it could correlate and act as a clearinghouse for various studies concerning local governments and their relations with State and Federal levels, and above all, it would be able to make available to local officials information about Federal programs and activities that concern or directly affect local units. This last is exceedingly important, especially to the medium and smaller sized units. Many local units do not avail themselves of many Federal services and programs because they do not know where to go or where to find out about them. Many good programs for intergovernmental cooperation have failed because of lack of understanding or lack of information. A permanent, central organization which could serve as an information center appears to be the only remedy. If intergovernmental cooperation is to be increased, if intelligent reevaluation and possible readjustment of service functions are to be accomplished, it seems to me that the establishment of such an agency or bureau should be the first step.

Thank you very much.

Chairman WOLCOTT. Thank you, Mr. Elliott, very much.

Next we have Mr. Michael Micich, the mayor of Charles City, Iowa.

Representative TALLE. Mr. Chairman, may I say that I am very happy to have my fellow Iowan here today? He comes from a very fine city in Floyd County, Iowa.

Chairman WOLCOTT. Is it in your district?

Representative TALLE. It was when I first came to Congress. I served it for 4 years with great joy.

Chairman WOLCOTT. I might say to the mayor that if his city ever came under the influence of Congressman Talle, it must be a very good city.

STATEMENT OF HON. MICHAEL MICICH, MAYOR, CHARLES CITY, IOWA

Mr. MICICH. Mr. Chairman, gentlemen, I took office on January 2, 1954, as mayor of Charles City, Iowa, a small city of 10,000 population. This city is situated in a rich agricultural area that raises corn, oats, soybeans, hogs, cattle, and turkeys. In Charles City proper we have one large tractor plant and several other small manufacturing plants. I work 320 acres of land, feed cattle and raise 30,000 turkeys annually.

On January 4, the chamber of commerce asked me to affix my name to a wire as a cosigner with the president of the local chamber of commerce addressed to President Eisenhower and Senators Gillette and Hickenlooper of Iowa. This wire reads verbatim:

> We support President Eisenhower's stand on special consideration for defense contracts going to surplus labor areas. According to the State employment service, Charles City could support a plant employing 800–1,000 or more skilled and semiskilled laborers. Advise steps we can take to cooperate.

This wire was signed by Wayne Wood, president of the chamber of commerce, and myself as mayor of Charles City.

We found out that we could not qualify under the "Criteria for Classification of Areas of Substantial Labor Surplus (Group IV)." We did not have a large enough population.

After January 4, the county auditor discussed with me the serious impending drain on the county poor fund. He informed me that by statute a 1½-mill rate was allowed for the poor fund but by special permission from the State auditor an additional 3 mills could be levied. This meant 4½ mills could be raised, or $147,000. His offhand estimate was that $200,000 was needed this year for this county relief. This meant $53,000 had to be raised by the issuance of funding bonds. At present 7 percent of the Floyd County population receives some form of county relief.

In view of the above situation he requested me to have a meeting held in the city council chambers, which was logical because of its location, for the interested parties. His object was to try to get all parties interested to find out just the exact picture of everything involved. He called this meeting at 11 a. m. on January 18. To this meeting he invited the county board of supervisors, State Senator Zastrow, Bob Thomsen, secretary of the chamber of commerce, Gerald Fisher, president of the local union, John Ingram, vice president of the local union, Martin Harden, manager of the local Iowa employment office, myself, and a news reporter. All were present and Mr. Friedrich, the county auditor, acted as chairman. My position was more or less as a spectator interested in receiving all the information that I could get.

The people present discussed the raising of unemployment compensation benefits, the effects the great drought of the Southwest had on the farm implement manufacturer here in Charles City.

Mr. Harden, Employment office manager, then gave figures and facts about the number of people unemployed here in this area. Out of the Charles City office, 566 people were drawing unemployment compensation and his estimate was that approximately 1,400 to 1,700 were unemployed in this area or about 800 to 1,000 in Charles City alone. Some already had exhausted their benefits. There were three small industries employing 250 people that did not work throughout the fall and all this unemployment could not be solely attributed to the large implement manufacturing industry here.

The discussion then veered back to the fact that this unemployment situation was only peculiar to certain Iowa cities and was not on a statewide basis. Senator Zastrow pointed out under the circumstances that a special session of the State legislature convening would be doubtful. In view of the fact it was only peculiar to certain Iowa cities he suggested that I call a meeting of the mayors of the affected cities and have a fact-finding meeting to see what was happening. To this proposal I agreed and called a meeting of seven mayors of Iowa to Cedar Rapids on January 27. The mayors of Waterloo, Davenport, Dubuque, Cedar Rapids, and myself attended. We recommended to Governor Beardsley that he formulate a committee to further study this unemployment problem. Governor Beardsley agreed and to this committee he appointed the mayors of Davenport, Waterloo, Charles City, three industrialists, three from the working force, the chairman of Iowa Employment Commission, the chairman of the Iowa Development Commission, and his personal representative, Mr. Whitfield, who is chairman. This committee met on February 1 in Waterloo, Iowa. The outcome of this meeting was:

1. Further investigate defense contracts for surplus labor areas.
2. Public works to be pinpointed wherever needed in cities having a large amount of unemployment.
3. Unemployment compensation increase to be studied.
4. Iowa Development Commission to submit recommendations to us at our next meeting on February 9 in Waterloo. This meeting I am unable to attend because of my appearance here.

When Mr. Ensley called me to appear before you gentlemen I told him I was not an authority on unemployment and the policy that I would pursue, even being a Republican, is one of looking the horse in the mouth.

Let us go back to the months of December 1949 and January 1950. We find in the State of Iowa that unemployment in those 2 months approximates the unemployment of December 1953, and January 1954. Back in the first 6 months of 1950 there was an intense international situation; today there is comparable tranquillity on the international stage. On June 25, 1950, the Korean war started which quickly absorbed the unemployment. Can we expect some situation to absorb our present unemployment? In my opinion "No" unless the city, county, State and Federal Governments immediately recognize this malignancy and on all fronts move simultaneously to eradicate it. This leadership should come from the top while we are making a transition in our economy.

To this committee I recommend the following:

1. Restore to the farmer the 25 percent of purchasing power he has lost in the last 2 years.
2. Study, and consider lowering the age from 65 to 60 of those eligible for social-security benefits. This will take many older people out of the labor market.
3. Institute public works of an enduring nature with matching funds from cities and States that have local unemployment problems. Let States and cities administer these funds.

4. Unemployment compensation benefits to be increased, especially in States that are low.

5. Perishable surpluses such as butter, eggs, cheese, dried fruits, etc. to be distributed to counties faced with serious drains on their county poor funds to help alleviate the property tax. Old-age pensioners also receive these surpluses wherever pension is not adequate.

6. Encourage risk capital in small businesses through tax amortizations, and other encouragements.

7. Endeavor to reduce Federal income taxes for individuals and corporations.

It would be fair in view of the fact that I am a farmer and also a Republican to point out that unless the Republican Party moves fast to correct this unemployment by recognizing that this is not an everyday occurrence plus their stand for flexible price supports, it will mean the loss of the State of Iowa to the Democrats. This dual problem is dynamite politically.

The restoration of the 25 percent purchasing power of the farmer plus the solution to the unemployment problem should be non-partisan. The recommendations for the restoration of the purchasing power loss is in my statement following this talk.

I would also add at this point that 18 percent of the 25 percent was inherited from the Democratic Party of this loss of purchasing power.

At this time I recommend that the Republican Party shift gears since, in my opinion, I feel that I have the pulse of the city people as well as the farmers, and today the people are suspicious of the Republican Party in the great voting block of farmers and laborers. This is a dangerous situation for any Republican seeking office this year. This is especially true in my area.

I know further attempt by many authorities to show that everything is rosy is not a true picture. An attempt, as I just told Mr. Ensley, will be made to smother my testimony by saying I am only a small frog in a big pond. I have nothing to gain or lose by my testimony. Perhaps I am a thorn among roses. My only hope is that a bipartisan approach can be worked out to act quickly before this malignancy approaches the critical stage.

Let us restore faith and confidence by concrete action immediately to show and prove to the people something is being done. This will have an electrifying psychological effect of restoring confidence to the whole economy. Actual deeds and actions are what get results and not words which fool no one. Advertise what is being done and what is proposed to be done and do not hurl charges back and forth.

Thank you for your invitation and kindness in listening to the thoughts that I have expressed, and I hope they will help guide you to a just and proper conclusion to these weighty problems.

Chairman Wolcott. Thank you, Mr. Micich. Without objection, the part of the statement not read will be included in the record.

Mr. Micich. Thank you.

(The statement referred to follows:)

Statement to the Joint Committee on the Economic Report

In my opening remarks to this committee I made the statement that the 25-percent purchasing power the farmers lost should be restored. It would be proper for me to make suggestions as to how this could be restored since I am a farmer who is vitally interested in this restoration.

My suggestion is this: Have the President of the United States appoint to a committee on agricultural problems 3 men from the cattle industry, 3 men from the hog industry, 3 from the grain industry, 3 from the poultry industry, 3 from the citrus industry, 3 from the truck-farming industry, and other farm-producing industries.

This committee should be chairmaned by either a labor lawyer or a corporation lawyer who does not know the difference between a cow and a bale of hay. The qualifications of the committeemen should be: A successful full-time farmer, not too closely associated with either political party or farm organizations. They should not be influenced by past prejudices and they should have their feet on the ground and give the farm problem a completely new look.

This committee should start from the absolute bottom. They should call in the farm experts and seek advice or information. These farm experts should not go to them until summoned to approve or disapprove a program.

Being successful, sincere farmers, you would be surprised at the results of these prudent men. These men, broken up in small committees, could tackle all phases of the complex farm problem after they had established among themselves a respective working relationship. They would be able to recognize the trees from the forest. This committee after holding hearings all over the country could come before the Congress with recommendations to correct this 25-percent loss of purchasing power.

Let us now consider the subjects this committee would investigate.

1. Farm credit:

Investigate the production credit associations.

(*a*) Undoubtedly one recommendation would be not to allow retired farmers to sit on the board of directors of local PCA's.

(*b*) Go back to the original idea that PCA's should take the loans that banks could not take.

(*c*) An association should concern itself not with the loans that they make but the loans they did not make.

(*d*) Associations showing no loss should be condemned since they are not making the fringe loans they should make.

(*e*) Banks should be encouraged to make farm loans even if it is necessary for the Government to underwrite these loans.

2. Study rigid versus flexible price supports.

(*a*) For example 17 percent cutback in corn acreage in Iowa will adversely affect implement manufacturers since there will be less tractors, cornpickers, cornplanters, discs, and harrows sold. In turn this causes unemployment which means fewer purchases of farm products. This also means fewer cars, radios, TV sets, gasoline, diesel fuel, and other goods sold to the farmer.

3. Study farm surpluses. Study the entire CCC setup.

(*a*) Dispose of perishables to counties for relief.

(*b*) Set aside a reserve of nonperishables, such as corn, wheat, cotton, peanuts, soybeans, and rice, for use in a national or international contingency or to be used for livestock feed in the United States. Surpluses could be gone over night.

4. Have a concrete plan ready in case a drought hits the Corn Belt in 1954.

(*a*) Drought long overdue.

(*b*) Iowa at present is in an 8-month drought.

1. If moisture does not come between April 15 and June 1, corn crop is doomed because moisture in soil is low.

5. Soil conservation to dovetail with national agricultural plan.

(*a*) A soil-conservation plan takes years to institute.

(*b*) Changing farm plans raise havoc with soil-conservation plan.

6. Protection of farm physical plant from deterioration.

(*a*) During war years and following these years farmers urged to produce utmost.

1. Farmers educated themselves through State colleges and farm magazines to get most of yield from farm.

2. Today the opposite is true since the encouragement is the opposite—not to produce.

3. People glibly suggest farmers shift to other crops and farm animals.

4. During war, farmers learned what farm products could be best produced on their particular farm.

5. Most farmers are not equipped today to shift into other farm enterprises because of the lack of adaptability of farm, lack of equipment, lack of know-how, and lack of capital. Flexible supports keep farmers jumping because a

year-by-year plan is necessary whereas most successful farmers plan as much as 5 years in advance.

6. Technical advancements cannot be fully utilized because of the lack of capital even though equipment is becoming obsolete.

7. Coordinate State colleges with national farm program.

(*a*) Every State college to have 3 or 4 pilot farms with a real farmer as operator.

1. College people to study effects on these State college farms of national farm programs.

8. Study marketing, processing of farm products on national level.

(*a*) State colleges to have a study of marketing in their respective States.

(*b*) Assemble and review information received with recommendations to be forwarded to a national level.

9. Experimental data on fertilizers to be thoroughly studied.

(*a*) Trace minerals which cause spotty stands.

(*b*) Nitrogen shortages.

10. Encourage better breeds of cattle, hogs, and seed, etc.

(*a*) Federal Government to assist State colleges by financial aid.

11. Study export and import of farm products.

(*a*) Reciprocal trade agreements.

(*b*) World grain pools.

12. Study future trading of farm products.

13. Study population increase relating to increased demand for farm products.

The above are roughly some of the suggestions this committee could investigate. My only regret is that I did not have time and knowledge to go further into the subject.

This committee should hold closed meetings and thrash out the wheat from the chaff and at all time not let their differences become personal. Let us not forget that our greatest asset under a democracy is individual human ingenuity and the finer things of life such as hope and faith in one another.

Respectfully submitted.

MICHAEL MICICH,
Mayor, Charles City, Iowa.

Chairman WOLCOTT. We have with us on the subject of State governments Mr. Roger Freeman, special assistant to the Governor of the State of Washington.

STATEMENT OF ROGER A. FREEMAN, SPECIAL ASSISTANT TO THE GOVERNOR, STATE OF WASHINGTON

Mr. FREEMAN. Mr. Chairman and members of the committee, the Economic Report of the President declares it "entirely reasonable to expect that State and local expenditures will continue to increase." I agree with that expectation. Evidence from most States points to the conclusion that the outlays of States and local governments will keep going up.

Since the end of the war, State and local expenditures have risen on an average of $2 billion a year. Adjusted for the rise in prices, the average annual increase equaled about $1.3 billion. The additional funds came largely from five sources:

1. The rise in national and personal income automatically boosted receipts from income, sales and gross receipt taxes.

2. Many States had substantial surpluses accumulated in their general funds at the end of the war.

3. All but two States adopted new taxes or boosted tax rates between 1946 and 1953; local governments made more or less determined efforts to improve property tax administration, with or without State help; cities adopted a diversified assortment of nonproperty taxes.

4. Federal grants to States and local governments multiplied 3.7 times between 1946 and 1953.

5. State and local governments and their instrumentalities issued bonds at a rapid rate and boosted their total indebtedness from $16 billion in 1946 to over $33 billion in 1953.

Some of these sources will be less fertile in the near future:

1. Few economists expect national or personal income to rise more than a few percentage points within the next 2 years. Receipts from State income taxes are flattening out and in some places declining; consumption taxes show at best smaller increases than they have in recent years.

2. Spendable fund surpluses dwindled in most States under the impact of expenditures which in the 48 States exceeded revenues by $1 billion to $1½ billion every year between 1948 and 1952.

3. Fewer States raised tax rates or adopted new taxes in 1953 than in any legislative year since the end of the war. That seems to indicate a stronger resistance to tax raises. Further boosts will probably be adopted only in response to strong pressure and to satisfy essential nonpostponable needs.

4. The President's budget for 1955 recommends a reduction in Federal grants-in-aid to States and local governments from $2,867 million to $2,749 million. The prevailing sentiment does not now favor an expansion of the grants-in-aid system.

5. Borrowing is the only source with a continued favorable outlook. A record amount of $5½ billion in new State and municipal bond issues was placed on the market in 1953. Investors absorbed the offerings easily. The Dow-Jones index of 20 representative municipal issues fell in the last 7 months from 3.06 percent to 2.37 percent. That drop in interest rates reveals a high degree of flexibility in the market and a readiness to accept greater amounts, if available.

The voters approved more than 90 percent of the bond issues on the ballot in November 1953—over $800 million. Such an expression of popular sentiment cannot help but sway officials who are considering bond financing for public works. In times of tight budgets there is a tendency to channel current revenues into operating funds and to secure capital outlay needs through borrowing.

Most of the 44 legislatures which met in 1953 approved higher appropriations for the fiscal year 1954 or the biennium 1953–55 though prospects of high revenues were rather shaky. The President's Economic Report correctly names as the main reason for expecting State and local expenditures to rise not an improvement in the revenue picture but public pressure for the expansion and improvement of local facilities. The needs of a growing population unfilled because of years of depression, war, and material shortages and the insistence upon better and broadened services are likely to force the hand of legislative bodies in the years ahead as they did in 1953.

Budget and accounting systems differ greatly among the States and do not permit totaling. It would be impossible to summarize the State budgets adopted in 1953 without embarking upon a major project of reclassification. But the general concluison can be drawn that State expenditures will in the next 2 years almost maintain the rate of increase they have shown in recent years. This is probably also true of local government expenditures.

The President's Economic Report notes that governmental spending is continuing at its recent very high level "with the outlays of State and local governments offsetting in large part the recent downward tendency in Federal spending." The President proposed a budget cut of $5.3 billion in 1955 and a dip in cash payments to the public of $4.4 billion. The reduction in recommended new obligational authority of $4.4 billion aims at a further slash in 1956.

It does not seem likely that more than about one-third of the planned drop in Federal expenditures can be offset by increased State and local spending in the next 2 years.

The Economic Report predicts that "if it should become necessary, outlays for Federal public works could be stepped up by one-half or more within a year. State and local outlays, which are now the highest on record, might be expanded to a similar extent if financial arrangements were adequate."

Over the last 4 years, State and local expenditures for construction have increased at a yearly average of $650 million: in 1953 they totaled $7.1 billion. Expansion by one-half or more would mean an increase of at least $3½ billion within 1 year. States and local governments are very unlikely to boost their public-works program at such a drastic rate unless stimulated into doing so by a vast expansion of the Federal grants-in-aid system.

It is not inability to raise additional funds that is keeping the public-works program of States and local governments within the bounds of its present rate of growth. The total indebtedness of States and local governments has increased in the last 20 years from 19½ billion to 33 billion in terms of dollars. But in terms of the national income, it dropped from 33 to 11 percent. Eighty percent of the $10 billion increase in outstanding State and municipal securities between 1937 and 1952 was absorbed by commercial banks and insurance companies, the most perspicacious investors with the highest quality standards. The vast potential market of individual investors and business corporations has hardly been tapped though they could be expected to be more interested in tax-exempt securities in 1954 than they were in 1937.

The Wall Street Journal reported last week that the demand for municipal issues exceeded the supply. This seems particularly significant in a week in which the Treasury Department announced its intention of refunding $21 billion in Federal obligations. It is likely that States and local governments could sell several billions in additional bonds beyond the present issuing rate without upsetting the market. Eight States have virtually no bonds outstanding. Bonds of 32 of the other 40 States are rated Aaa or Aa by Moody's.

Most States could issue bonds without entering the market. They are now holding $8 billion in Federal securities and $1½ billion in private securities, largely in trust and investment funds. Many of these securities could be replaced with the State's own bonds. Two-thirds of the States are holding a larger amount of Federal securities than the total of their indebtedness, guaranteed, nonguaranteed and authority-issued.

As a rule, States cannot act as swiftly as the Federal Government. All but eight State constitutions require voters' approval or constitutional amendments for the issue of State obligations; authorization of State bond issues may take 1 to 3 years. Many States and municipalities, however, have resorted in recent years to the faster if more expensive method of financing through revenue bonds or special purpose authorities. The bonding capacity of municipalities is often restricted to a certain percentage of their property tax assessments by constitutional limitations. The widespread malpractice of assessing property below its value—average property tax assessments in the United States have been estimated at about one-third of current value—has cut the bonding power of many municipal governments to a fraction of their legal entitlement. That could be corrected by administrative improvements if emergent needs engendered sufficient pressure. Most cities have a sufficient bonding margin available at present.

It seems that neither State nor many municipal governments are prevented from increasing their public works programs by lack of borrowing power. Nor is lack of taxing power keeping many of them from expanding their expenditures. The State and local tax burden fell from 10.8 per cent of the national income in 1932 to 9.3 percent in 1942 and to 6.9 percent in 1952. There has been a rather general tendency to shift the unpleasant responsibility for the raising of the necessary taxes to the Federal Government, and for obtaining revenues through grants-in-aid. While the State and local tax burden eased, the Federal tax burden rose from 3.1 percent of the national income in 1932 to 21.5 percent in 1952. That heavy overall tax load created a general atmosphere of growing tax resistance in which States and local governments found it economically and politically impossible to retain their share of the national income.

States and local governments would be in a better position to finance their needs from their own resources if certain taxes now imposed by the Federal Government were abandoned for State and local use. An alternative method of enabling States and local governments to increase their spending programs at a faster rate, though less desirable, would be to further expand the grants-in-aid system.

The President's Economic Report said:

> The backlog of desirable Federal, State and local public works is counted in tens of billions.

Most of the programs listed are in State and local fields. Why are they not carried out? The answer, I believe, can be found in the President's Budget Message:

> In preparing this budget the administration has directed its attention to essential activities and programs rather than to those which some might consider desirable and appropriate.

That pronouncement describes accurately the policy of the great majority of State and municipal governments. There is undoubtedly a vast backlog of desirable and often badly needed public works, schools, roads, hospitals, et cetera. But the Economic Report warns—

> that an effective public works program must meet genuine needs and thus earn the endorsement of the community.

The general feeling among responsible State officials is that the test of the endorsement of the community (or the population of the State) is the willingness to pay for the services or public works which are demanded of the governing bodies. The problem of State and local officials today is not to find markets for bond issues to finance public works, but to resist pressures which would force expenditures beyond their constituents' willingness to tax themselves.

The programs with the greatest backlogs in public works, highways and schools, are those whose main sources of revenue—or specifically whose tax rates—have been permitted to fall below the increase in prices and income which has occurred in the last 12 years. If we try to overcome the basic weakness by palliatives—like expanded grants-in-aid—we remove the only force that could possibly correct the underlying weakness.

State and local officials generally feel that it is their responsibility to take care of the needs in those areas which are traditionally State and local functions. This is particularly true of the fields of education, highways, health and welfare, which absorb now about 80 per cent of all State expenditures. But they regard the maintenance of maximum employment and a high level of production—to the degree to which this is a governmental obligation—as a responsibility of the Federal Government. The Federal Government is able to take swift and strong counter-cyclical action through its control of the monetary system. State and local governments cannot easily nor quickly achieve unity of bold action through 48 legislatures and 116,000 local governing bodies. They can be depended upon to join together and with the Federal Government in cooperative action if disaster strikes or if a major emergency arises. But they are not very likely to engage in advance action to raise their rate of spending to prevent a potential lack of buying power. The level and trend of the national economy are a national problem which requires a national solution.

The President stated in his Budget Message:

> This budget marks the beginning of a movement to shift to State and local governments and to private enterprise Federal activities which can be more appropriately and more efficiently carried on in that way.

The ability of States and local governments to assume new responsibilities and take better care of current needs is somewhat handicapped by the tremendous Federal tax burden. Those governments would be in a better position to do a more adequate job in their traditional fields of activity or enter new ones if the Federal Government were (1) to vacate certain taxes which are suitable for State and local use, (2) to consent to fair payments in lieu of local taxation of Federal property and (3) to permit full State and local taxation of private, commercial and industrial operations on Federal land.

State and municipal officials have repeatedly expressed their opinion that such action would better maintain the strength of their governments and of our Federal system than financial help through an expansion of the grants-in-aid system.

Thank you.

Chairman WOLCOTT. Thank you very much, Mr. Freeman.

On the question of State and local finances, Mr. George Mitchell, vice president of the Federal Reserve Bank of Chicago, will present a statement. Mr. Mitchell.

STATEMENT OF GEORGE W. MITCHELL, VICE PRESIDENT, FEDERAL RESERVE BANK OF CHICAGO

Mr. MITCHELL. Mr. Chairman and gentlemen of the committee, the first 2½ pages of my statement are given over to an appraisal of the probable course of operating expenditures of State and local governments in the next year or year and a half. They in effect conclude that, barring a serious setback in the economic situation, operating costs are more or less stabilized. This seems to be the view that has been expressed by the other speakers, to the extent that they have expressed a view on these issues.

Expenditures of the State and local governments are estimated to have tripled since the end of the war. Reports of the Census Bureau's Governments Division show that payrolls, which make up about half of all State and local spending, in October of last year were 2½ times as great as in October 1945. Since the number of employees rose less than 50 percent over the same period, the most important single factor accounting for the tripling of expenditures has been the increase in unit costs.[1]

The States and localities as a group have assumed few new functions since the war, and these have been of minor importance. Population growth and migration into suburban areas, as well as to the South and the West, together with the general increase in standards of private consumption, have, however, contributed materially to pressure for expansion of facilities and extension of services associated with established functions.

The non-Federal governments virtually discontinued their capital spending during the war and entered the succeeding period with a substantial backlog of badly needed community facilities. Since such facilities are usually provided only after a need has been well demonstrated, or, better, only after it has become painfully apparent, the outright inadequacy of plant of State and local governments in many sections of the country has been the major contributor to the high rates of construction recently experienced.

This statement will be concerned with factors that will play a part in determining the rate of non-Federal government spending in the next 18 months and the considerations that should be taken into account if some acceleration in the rate of such spending is deemed desirable as a counter-cyclical measure.

OPERATING COSTS

The post-war increase in operating costs of States and localities apparently has leveled off. Yearly gains are still the rule for State Governments, but their relative magnitude has declined appreciably. Starting from $2¼ billion in fiscal 1945, State spending for operating purposes by 1948 had almost doubled, reaching $4⅓ billion after three sharp year-to-year spurts. The following four years, however, wit-

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[1] The paucity of data relating to the finances of State and local governments seriously handicaps an appraisal of their levels and trends. The Governments Division of the Census regularly reports comprehensively on the finances of all the States and of the cities of 25,000 and more. Smaller cities and the many thousands of counties, towns, and school districts and other special units ordinarily have been treated only in the decennial Census of Governments. Since the last such census covered 1942, the obstacles to investigation of post-war trends will be apparent. The Division's recently released Summary of Governmental Finances in 1952, however, has provided a set of benchmarks for that one year. Valuable as it is, this summary is hardly adequate in historical perspective or structural detail of local government for the task at hand.

The Commerce Department's Office of Business Economics compiles annual estimates of combined State and local expenditure which are used in the derivation of national income statistics. These estimates make use of a different conceptual frameworfk than the Governments Division employs and cover only a few major aggregates.

The Governments Division's survey of payroll expense and numbers of full- and part-time employees, for each of the principal classes of governments, provide a useful measure of the single most important component of operating outlay. October 1945 payrolls for all State and local governments were $468 million; for October 1953, $1,232 million. The number of full- and part-time employees in October 1945 was 3.2 million; in October 1953 it was 4.7 million (from Census Bureau, Public Employment in October 1953, December 31, 1953).

nessed a cumulative gain of only $1\frac{1}{2}$ billion and between 1950 and 1952 there was almost no change at all.

The census does not compile comparable data for local operating expenditure. From the year-to-year changes in October payroll costs, as reported by the Census Bureau, it can be inferred that the Korea-induced upswing in payrolls will slow in 1954: Sizable yearly gains in October salary and wage expense have characterized the whole postwar period:

	Percent
1946 to 1947	+19
1947 to 1948	13
1948 to 1949	8
1949 to 1950	6
1950 to 1951	9
1951 to 1952	12
1952 to 1953	10

Because most of the effects of price inflation have been worked off in operating outlays other than payroll, overall operating costs undoubtedly are flattening out.

In the absence of further advance in the price level and because the adaptation of State and local wage rates to levels provided in private employment has already largely occurred, it is unrealistic to expect future advances in operating expenditure of anything like the proportions registered in the past 6 or 7 years.

Growing workloads that will operate to boost State and local operating expenditures have to do with welfare programs and education (population of school age, patients to be cared for at mental institutions, public assistance caseloads).

Welfare costs have been at a minimum during the boom period, particularly during the last 2 years or so in which the cost of living, the unit-cost factor directly affecting welfare payments, has held fairly stable. In the months ahead and in the absence of a significant letdown in business activity, State and local operating expenditures for welfare purposes are unlikely to change significantly, by virtue of either increasing unit costs or increasing workloads.

School expenditure, on the other hand, doubtless will continue to rise, since enrollments are still advancing toward a peak that lies at least 4 years ahead.

If the decline in employment should continue much further, the volatile elements in the welfare program, general assistance and aid to dependent children, would react sharply. In the course of the 1948–49 recession, for example, monthly expenditure for general assistance purposes more than doubled as unemployment climbed from a low of 1.6 million in October 1948 to a high of almost 4.7 million in February 1950.

CAPITAL EXPENDITURES

The situation with respect to the public works is somewhat different. The record of investment in recent years has been without historical precedent in terms of both the magnitude and duration of the spending that has occurred. Virtually all the most critical needs doubtless have been taken care of by now even though only minor headway has been made toward providing what many would regard as desirable facilities to accommodate today's needs.

To evaluate the size and timing of capital outlay programs, it is helpful to distinguish between self-liquidating or user-financed public improvements and those financed from general taxes. Projects typically associated with State governments will be considered separately from those carried out by local governments.

Public works encompass a wide variety of structures and specialized equipment that governments need to carry on their operations; highways, bridges, airports, schoolhouses, hospitals, dormitories, water-supply and sewage-disposal plants, courthouses, are examples. Until the thirties, there had been little disposition to regard financing of such facilities as anything other than a proper charge upon general tax revenues, irrespective of differences in benefit accruing to taxpayers as individuals. True, water and publicly owned utility rates have long been the sole source of support for such systems and, in fact, charges have often been set sufficiently high to help support other activities as well. But more and more the business-type functions of States and localities have been financed by fees and charges more akin to prices than taxes, by a system, in effect, where users pay in proportion to use, and nonusers pay nothing. This growing reliance on user charges is an important factor in appraising the size and timing of State and local public works.

State-local fiscal experience has shown that in time of business downturn and shrinking tax receipts the first casualty of retrenchment in aggregate spending supported from general tax revenues is the capital improvement program. Operating requirements have a recognized first claim on general taxes and the most readily attainable budgetary adjustments are those that arise from postponement of new construction. Expenditure for new construction typically is provided for, if at all, from the residual difference between estimated resources available (balances and current receipts) and anticipated needs for operating purposes. It thus may be regarded as expendable in the event of a failure of receipts to maintain their expected level or of a sudden rise in operating costs.

The relative ease with which general tax funds supported by sales, income, profits, property, or excise taxes can be shifted among alternative governmental uses is a fairly good indicator of the exposure of new construction outlays to the competition of operating needs. The funds of special purpose units (e. g., schools) are less exposed than those of general purpose governments (e. g., cities and counties). Fund earmarking within general purpose units also limits the impact of declining tax yields on construction.

Thus, the type of public works supported by general taxes—schools, welfare institutions, and administrative quarters—is most likely to be the first casualty of declining revenues and mounting operating costs.

User-financed construction projects are insulated from these competitive claims on public moneys mainly because their revenues are usually kept separate and apart from those funds which support general operating expenses. For example, many self-liquidating or user-financed projects are conducted by separate public corporations or special units of government which, in their fiscal management, are independent of any general government. Even when a local goverment or State directly operates an enterprise of this type, it is often both an awkward and time-consuming adjustment to transfer balances or even make intragovernmental loans.

It might seem plausible that the self-liquidating projects would suffer financial reverses in about the same measure as general government revenue, but there is an important distinction. User-financed projects tend to be cycle stable and thus experience a minimum of decline with falling business. The demand for water, sewer, and transportation facilities usually declines less in a downturn than demand in most other sectors, and certainly less than the yields of taxes measured by profits or individual income.

STATE PUBLIC WORKS

Barring a substantial setback in business conditions or a change in Federal grant policy, the States should continue to spend at about recent rates for streets and highways, including toll roads and bridges. Most current highway construction, exclusive of toll roads, is being financed on a pay-as-you-go basis. Fuel taxes, vehicle licenses, and special road haulage fees provide, first, for debt service on outstanding indebtedness and, second, for highway maintenance and operation. Remaining funds, together with Federal aid, are available for new construction.

The rate of capital expenditure, therefore, depends upon the user tax yields, Federal grants, and maintenance requirements. As indicated earlier, the taxes involved here are relatively insensitive to business downturn and should provide a stable gross flow of funds. Much of the deferred maintenance accumulated during the war has been taken care of so the balance remaining for pay-as-you-go construction should, on a conservative basis, remain at present levels.

Toll-road authorities have been a source of very large borrowings in the past 2 or 3 years. As several large projects even now are in the discussion and advance planning stage, it is likely that undertakings already authorized, together with proposals in prospect, will sustain the level of State outlays of this nature for the next several years. While appropriate locations for toll facilities will doubtless continue to be discovered, the number of sites where these high-costs, high-density-use facilities are likely to be good revenue producers are limited, unless, of course, there should be a further decline in the capacity and suitability to modern needs of roads financed from motor fuel and vehicle licenses.

Deficit financing is ordinarily an essential characteristic of user-financed or self-liquidating facilities. Usually a revenue-type bond is employed, but a government or authority may use its general obligation credit, or hypothecate its accumulated earning assets. While the States, for example, have been using the established earning capacity of their highway systems not only to maintain but also to extend and improve them on a pay-as-you-go basis the toll-road authorities usually have no such assets to draw on and must borrow.

Borrowing has a natural counter-cyclical characteristic. In business downturn funds seeking municipal securities are more readily available in the capital markets and yields decline. In these periods States and localities find that projects become feasible and increasingly attractive to investors that could not compete against housing and business capital demands in boom times. Insofar as such projects can be initiated without local referenda the drag of a retrenchment psychology so far as Government spending is concerned can be overcome.

Thus it becomes feasible for authorities charged with the management of self-liquidating projects to take advantage of favorable money markets to the ultimate benefit of the users of the services which they provide.

State construction financed from general funds also has come to be handled largely on a pay-as-you-go basis. Buildings at welfare and educational institutions are the major capital items paid from general taxes. Some have been financed by State bond issues. A few college dormitories have been financed by revenue bonds. In some States constitutional barriers to borrow have been circumvented by authorities created to construct State buildings where the only lessee has been the State. Biennial appropriations for rent spread the capital cost over a far longer period of time than would be possible if the program were on a pay-as-you-go basis.

Apart from these projects, which have a real or simulated user-charge feature, the decision for most States to embark upon capital improvements paid out of current resources depends upon a fortuitous financial combination in which the excess of income over outgo is adding to adequate cash balances and the frame of mind of the community does not dictate tax reduction. When balances are declining and outgo equals or exceeds current income, it becomes almost impossible to find a place in the State budget for new capital projects.

LOCAL GOVERNMENT CAPITAL EXPENDITURE

Local units face somewhat the same problems as the State governments excepting that their major source of revenue—the property tax—is less subject to economic vicissitudes than State sales and income taxes, and therefore the pressure for retrenchment from declining economic conditions is likely to be somewhat deferred. Few individual localities follow a pay-as-you-go policy in financing their public improvements. This is true whether one considers the self-liquidating, user-financed type of improvement—water system or sewage-disposal plant—or the public school. Credit is ordinarily used to obtain the funds for any particular improvement and the cost typically amortized over a period of approximately 20 years. Only the very largest school districts, for example, are able to consider placing their construction program for school buildings on a pay-as-you-go basis and even these experience a good deal of difficulty if their population increases rapidly.

In recent years the annual increase in gross local indebtedness has averaged over $2 billion. No factors seem to be in the offing which will operate to constrict present local capital outlay plans. The large volume of local debt issues sold in 1953 assures a continuation of high spending in the immediate future. A more favorable bond market will tend to offset the influence of the declining urgency in local projects remaining to be undertaken.

As in the private sector of the economy State and local debt has expanded rapidly since 1945. State debt has nearly tripled, local debt about doubled. Since most of this borrowing is in the form of serial bonds, the sums required for annual principal payments have become substantial offsets to new borrowing. Taking State and local governments as a whole we are moving toward a position in which the net new money is declining rather than increasing.

PUBLIC WORKS TIMING

The value of public-works expenditure as an antideflationary weapon lies in the contribution that such spending can make to the maintenance of jobs and markets. The usefulness of any instrument of counter-cyclical policy often will depend upon the promptness with which it can be brought into play. In this respect, public works leave much to be desired. Construction is not a type of activity that can be turned on at will. Before a project can get under way a number of preliminaries have to be disposed of. For one thing, need for it must have to come to be realized. Once need has been recognized there is the task of fostering acceptance of the proposal among the potential users or beneficiaries who will have to pay for it. Next will follow the tedious and time-consuming processes of securing formal approval, drawing up the detailed engineering plans, arranging methods of financing the expenditure and, if borrowing is required, obtaining referendum approval, and, finally, negotiating with contractors, calling for bids, and awarding the contracts.

SECURING POPULAR SUPPORT

It has been pointed out that public construction is seldom of an anticipatory nature. Instead, needs for new construction usually are met after the fact. In the typical community, enlargement or supplementation of existing school, highway, water supply, or sewage disposal facilities will not ordinarily receive serious consideration until the pressure upon existing plant has assumed critical proportions.

Awareness of need may arise from within the structure of the governmental bodies concerned or from without, from the community at large. Parents may begin to sense the inadequacy of the existing physical plant of their local school district. Home owners in a new subdivision may feel keenly the need to enlarge and extend storm-sewer mains or to install sanitary sewers. Motorists may seek road and street improvements. But, even after sentiment for a given construction undertaking begins to take shape, considerable spadework needs to be done if a community-wide consensus in support of the project is to develop. Time has to be allowed for proponents and opponents to air their views in the local press. Alternatives have to be canvassed and the experience of other communities studied.

While the project is still in this discussion stage, a certain amount of time and money will be spent upon rough plans to serve as the basis for popular discussion. Some idea has to be developed as to the suitable site or right-of-way, or perhaps a number of alternatives have to be selected, before public sentiment can be fully crystalized in favor of the proposal. Cost estimates need to be prepared and leading design features relating to the capacity and the appearance of the improvement worked out. If the community has a master plan, it will be necessary to determine the compatibility of the project in question with that plan. Only when all these steps are out of the way can community interest focus sharply on the project in question and a final decision be reached as to its desirability.

Plans, site acquisition, financing and legal requirements.—The next step consists in preparation of the detailed engineering plans, questions of site or right-of-way having been decided. From such plans final cost calculations can be made in order to serve as the basis for financial arrangements.

A common next stage in the process consists in referral of the plans—engineering and financial alike—to the suitable authorities, often the courts, for hearing. Since an opportunity must be provided for objectors to appear in opposition, with the possibility of appeal, this process may be considerably drawn out.

When formal approval has been conferred, it remains to secure the site or right-of-way to complete the engineering plans, to proceed with negotiations for financing, to call for bids, and to let the contract. Assembling the tracts needed for the right-of-way or site can be an almost interminable proceeding. Clearing existing structures from the property acquired, moreover, mav be held up for considerable periods pending relocation of the occupants.

With respect to many types of public works projects, financing through the issuance of debt may be contingent upon referendum or court approval. Where this is the case one more stage may be added to the whole process. Constitutional and statutory requirements governing the spending and borrowing power of local governments, particularly, often are meticulously detailed and restrictive. The legal work usually part of the planning of public works undertakings may be a major obstacle to rapid development of plans and commencement of the actual construction work.

All in all, in the interval between the time that need for a public works project first is sensed and the first spadeful of earth is turned can range from a few weeks to a few years. The more elaborate and costly a project, the longer this interval is likely to be. Minor street paving jobs, extensions of sewer and water mains, additions to existing buildings, and similar minor construction projects, however, usually can be initiated with a minimum of delay.

CONSTRUCTION

The duration of the construction process itself will vary greatly. Generally the larger and more involved the project the greater the time that will be needed to compelte it; construction periods as long as 3 to 5 years are not uncommon for some of the largest undertakings. Smaller public works, such as local sewer and water improvements and the like, often can be finished in a matter of only a few months. But as to all types of construction projects the preliminary steps that must be taken stand in the way of immediate initiation of actual construction upon discovery of need for the project.

An example of the type of schedule involved in the planning and execution of a major construction undertaking is that of the Feather River project of the California Water Project Authority. The California legislature in 1951 authorized the construction of a 500-mile water supply canal to extend from the northern part of the State southward to San Diego. Estimated cost of the whole project is $1,270,000,000. At present, this undertaking is still in the planning stage, and it is expected that the final engineering and financial reports will not be available until 1955. Work is expected to begin in 1955 and to extend for a period of 7 years beyond that.

SELF-LIQUIDATING VERSUS NON-SELF-LIQUIDATING PROJECTS

It has been pointed out that one of the most important preliminary steps in the promotion of a public works program, whether State or local, consists in the mobilization of popular support. Undoubtedly this task is easiest when a proposed project is of a type for which financing by user charges is suitable. The taxpayer is more likely to lend his support, or less likely to interpose his objections, to an undertaking he will pay for only as and if he uses it than one that will be financed from sales, income, or property taxes and that may or may not confer a specific tbenefit upon him.

In conclusion, the timing characteristics of public works spending all but render this device unsuitable as an antirecessionary tool except in severe and prolonged depression. So time consuming are the preliminaries to actual construction, that by the time spending began, the conditions public works outlay is supposed to counteract might well have taken a grave turn, or on the other hand been entirely alleviated through the operation of other forces. When the need is for early corrective action, more direct measures, calculated to secure the desired effect on spending when the need first appears, are to be preferred.

I also had a request from your committee to present some material on recent economic developments in some of the cities of the Middle West, and I have here some voluminous statistical material which I will provide for the record dealing with employment, banks debits, and department-store sales in Midwestern cities.

Chairman WOLCOTT. So much of the material as the committee desires may be inserted in the record, if you will leave it with us, Mr. Mitchell.

(The material referred to follows:)

INTRODUCTION TO AREA DATA

The Seventh Federal Reserve District metropolitan areas included in the following writeups and tables have witnessed an appreciable weakening in employment and income since the spring of 1953 which can be documented on the basis of available data. Indianapolis and Rockford witnessed labor market softening in late 1953 but the effect was slight. Neither of these cities is completely dependent upon one concern or industry as are a number of the others which report a sizable labor surplus. Many smaller cities in the district have not seen important reductions in employment. Therefore, the group of cities covered does not present a balanced picture of the economic health of the region.

Terre Haute has been omitted because of lack of relevant data and because the situation has not changed drastically. This city is perennially in the labor surplus category. Some cities in which farm machinery is important such as Waterloo and Charles City, Iowa, are also omitted because of a lack of employment statistics.

The Waterloo area includes a population of about 100,000. The John Deere tractor plant in that city employs about 7,500 workers in times of high output. A recent rehiring of 500 has brought this number back to approximately 4,500. Charles City, a town of about 12,000, is very heavily dependent upon the Oliver Tractor plant which is operating at depressed levels.

The United States Bureau of Employment Security classifies cities in the following manner:

I. Areas of labor shortage.
II. Areas of balanced labor supply.
III. Areas of moderate labor surplus.
IV. Areas of substantial labor surplus.

No important district cities were listed in group I in the January Classification Summary. The other groups are listed below:

Group II: Flint, Grand Rapids, Kalamazoo, Lansing, Saginaw, Aurora, Chicago, Rockford, Indianapolis, Madison, Cedar Rapids, Des Moines.

Group III: Battle Creek, Quad Cities, Joliet, Peoria, Evansville, Fort Wayne, South Bend, Milwaukee, Racine.

Group IV: Muskegon, Terre Haute, Vincennes, Kenosha, Detroit (February 8).

Battle Creek, Detroit, Fort Wayne, and Joliet were moved into the III category in January at which time Muskegon moved to group IV. The Battle Creek situation has deteriorated largely as a result of the completion of work on a defense contract. This city was in group I as late as last September, but in January unemployment was estimated at 8 percent. Several other district cities such as Kenosha, Detroit, and Muskegon witnessed rapid changes in classification during 1953.

In using the employment figures a number of facts should be noted:

1. Employment developments as revealed in available data indicate that reductions in force to date have been confined very largely to unskilled and semi-skilled production workers. Overhead staffs and employment in non-manufacturing lines have been maintained by and large, and declines from a year-ago in production workers for most cities are not much different than the change in total employment. Office workers were still difficult to recruit in Detroit, for example, despite the substantial labor surplus designation.

2. Unemployment totals have been moderated up to this time by withdrawals from local labor markets. Thus unemployment has not risen as much as employment has decreased. If family budgets continue to be pinched an opposite effect may be noted as unemployment rolls are swollen by the entry into the labor market of members of the families of workers whose jobs have been eliminated.

3. Unemployment figures do not ordinarily take account of workers idled temporarily for a week or two because of model changeovers or temporary inventory bulges when workers can look forward to a definite recall date.

4. Up through the end of 1953 payrolls in most areas had not fallen faster than employment despite reduced hours and, in fact, average weekly earnings had increased in many cities. This is because unskilled and low seniority people are laid off first with the result that average pay of those still employed may rise. In the automobile industry and in certain other lines a trend to the 4-day week in early 1954 probably is bringing about a change in this picture. Through December, average workweeks had been reduced by only an hour or so in most Midwest cities.

5. Some large firms have attempted to maintain activity by pulling in subcontracting to the home shop, or by shifting workers from one line to another. News items focus upon large firms, but it is apparent that small firms have often been harder hit.

It will be noted that bank debits and department store sales in many cities have been well maintained despite reduced employment. Apparently, spending patterns tend to lag changes in income. These data may be taken as an additional indication that the downtrend has shown little tendency to become cumulative, and that the effects have not penetrated deeply in nonmanufacturing lines.

CHICAGO AREA

Employment had been maintained through December as a result of hirings by nonmanufacturing firms. Layoffs in television, iron and steel, appliances, and some other lines, mainly durables, brought manufacturing employment down by about 25,000 between November and December—as much as the decline from the March peak to November. From March to December the decline in manufacturing employment was about 5 percent. Indications are that total employment declined noticeably in January and February. Nevertheless, Chicago remains a relatively high employment area.

Chicago area

	Employment data in thousands [1]					Department store sales [2]		Bank debits [2]	Car registration [3]	Housing permits (private) [4]
	Labor force	Unemployed		Nonagricultural	Manufacturing	Index adjustment	Percent change			
		Number	Percent							
1952								*Thousands of dollars*		
January	2,652	75	2.8	2,337	914	104	−8	452,483	11,582	1,429
February						104	−3	436,667	14,976	1,961
March	2,640	55	2.1	2,351	940	101	−8	494,541	15,476	2,994
April						100	+8	419,818	20,748	3,744
May	2,684	65	2.4	2,365	923	103	+3	445,632	18,106	2,953
June						101	+3	482,415	17,702	2,902
July	2,719	80	3.0	2,313	864	100	+3	473,511	16,095	3,086
August						108	+5	396,195	10,717	2,752
September	2,686	55	2.0	2,400	934	104	+4	470,676	13,774	3,388
October						111	+6	490,086	15,725	3,000
November	2,728	45	1.6	2,428	961	101	−6	456,045	15,338	2,066
December						110	+12	548,276	20,099	1,349
1953										
January	2,705	55	2.0	2,407	973	100	−3	470,600	17,715	1,433
February						107	−2	442,901	17,537	1,980
March	2,700	40	1.5	2,418	984	105	+6	562,319	24,273	3,715
April						105	+2	495,767	22,993	4,200
May	2,728	45	1.6	2,436	977	108	−1	508,817	23,712	3,984
June						103	+7	517,991	29,419	3,968
July	2,741	55	2.0	2,428	961	105	+5	498,577	25,580	3,420
August						104	−4	461,944	21,918	3,737
September	2,740	45	1.6	2,449	974	102	−1	511,131	21,652	3,510
October						107	−2	481,261	23,243	3,9[illegible]5
November	2,754	55	2.0	2,446	960	108	+5	507,813	19,139	2,6[illegible]8
December	[5] 2,800	[5] 80	2.9	[5] 2,450	[1] 935	108	−2	537,500	16,046	1,987
1954: January							[6] +1	494,079		

[1] Chicago-Calumet area. Includes Cook and Du Page Counties in Illinois and Lake County in Indiana. Other data is for six county standard metropolitan area. Illinois State Employment Service.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] City of Chicago, Housing and Redevelopment Coordinator.
[5] Estimated.
[6] Preliminary.

DETROIT AREA

Between April and January unemployment in Detroit rose from 15,000 to 107,000 equal to 7.1 percent of the labor force. This was the highest since the 1952 steel strike, and a further rise was indicated for February. During this period manufacturing employment declined by about 13 percent. Virtually all of the reduction has come in the automobile industry, principally at the plants of Chrysler and the independents. Ford is evidently cutting overtime sharply. General Motors employment, largely outside of Detroit, is beginning to be affected by continuing large stocks of 1953 and 1954 models. In February, Chevrolet cut back to a 4-day week as a result of market conditions for the first time since before World War II.

Detroit

	Employment data in thousands [1]					Department store sales [2]		Bank debits [2]	Car registration [3]	Housing permits (private) [4]
	Labor force	Unemployed: Number	Unemployed: Percent	Nonagricultural	Manufacturing	Index adjustment	Percent change			
								Thousands of dollars		
1952										
January	1,446	107	7.4	1,212	635	104	−16	176,333	10,390	1,291
February	1,437	102	7.1	1,209	636	101	−9	169,551	12,824	1,610
March	1,429	85	5.9	1,218	641	104	−9	176,130	14,385	2,206
April	1,432	69	4.8	1,235	652	104	+9	178,882	14,975	2,306
May	1,428	52	3.6	1,206	657	104	+1	171,511	16,678	2,391
June	1,427	48	3.4	1,234	645	110	−3	182,867	16,844	2,707
July	1,439	185	12.9	1,110	516	101	0	173,935	11,125	2,736
August	1,429	65	4.5	1,236	636	110	−1	155,992	9,927	2,870
September	1,440	33	2.3	1,278	674	107	+1	178,295	13,424	2,692
October	1,453	25	1.7	1,300	693	116	+10	189,456	16,607	2,430
November	1,483	25	1.7	1,331	718	113	−1	187,741	12,803	1,795
December	1,502	20	1.3	1,355	736	122	+13	215,870	15,781	1,432
1953										
January	1,493	25	1.7	1,341	748	114	+10	207,100	16,453	1,332
February	1,500	25	1.7	1,345	759	113	+8	202,028	17,353	2,272
March	1,503	20	1.3	1,359	771	121	+17	222,572	21,911	3,274
April	1,515	15	1.0	1,375	782	113	+6	214,320	23,937	3,520
May	1,523	20	1.3	1,368	781	118	+8	223,697	24,823	2,955
June	1,527	21	1.4	1,376	778	119	+13	222,759	23,024	3,107
July	1,544	34	2.2	1,383	781	115	+13	226,912	20,782	3,000
August	1,541	70	4.5	1,344	741	116	+5	215,376	21,856	2,777
September	1,539	78	5.1	1,336	727	108	+1	219,397	19,991	2,624
October	1,532	74	4.8	1,333	716	111	−4	200,973	20,902	2,775
November	1,526	76	5.0	1,326	706	119	+4	215,854	17,377	2,210
December	1,532	84	5.5	1,324	702	119	−2	232,066	16,491	1,796
1954										
January	1,510	107	7.1				p −7	209,147		

p Preliminary.

[1] Michigan Employment Security Commission.

[2] Federal Reserve Bank of Chicago.

[3] R. L. Polk & Co.

[4] Detroit Metropolitan Area Regional Planning Commission.

KENOSHA

Few cities in the Midwest of appreciable size are so heavily dependent upon one firm as in Kenosha. Early last year about two-thirds of its manufacturing employment was accounted for by Nash. Between March of 1953 and January of 1954 employment at principal manufacturing firms declined by about 26 percent. In January, despite out-migrants, there were 2,800 unemployed equal to 9 percent of the labor force. Moreover, a further employment drop of 300 workers was expected between January and March. Kenosha appears to present the weakest picture in the entire district, at least in comparison to early last year. Apparently it would be still worse were it not for defense work at Nash which employs at least 650 on an aircraft engine contract.

Kenosha

	Employment data in thousands [1]		Bank debits [2]	Housing permits [3]
	Nonagricultural	Manufacturing		
			Thousands of dollars	
1952				
January	16.2	13.4	1,634	8
February			1,629	28
March	19.6	16.8	1,576	50
April			1,551	47
May	21.1	18.2	1,703	50
June			1,698	40
July	15.0	11.9	1,489	38
August			1,478	66
September	21.6	18.6	1,586	55
October			1,672	59
November	22.8	19.5	1,805	26
December			1,894	6
1953				
January	22.8	19.4	1,884	4
February			2,086	28
March	23.7	20.6	2,035	38
April			1,962	42
May	22.3	19.1	2,033	31
June			1,911	31
July	14.4	11.3	1,734	19
August			1,704	14
September	19.5	16.4	1,755	18
October			1,810	27
November	19.4	16.3	1,707	p 13
December			1,892	
1954				
January	18.4	15.3	1,865	

p Preliminary
[1] Reporting establishments only. Industrial Commission of Wisconsin.
[2] Federal Reserve Bank of Chicago.
[3] U. S. Bureau of Labor Statistics.

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MILWAUKEE AREA

Unemployment began to pick up sharply toward year-end. By January it was estimated that 4.7 percent of the labor force was jobless compared with 1.5 percent in May. Total employment was down about 3.5 percent in January 1954 compared with the May high and manufacturing employment was off almost 10 percent. A further drop of about 500 employees was expected between January and March. Despite a reduction of average weekly hours in manufacturing from 42.2 to 40.9 between November 1952 and November 1953, average weekly earnings were slightly higher in the latter month. This is probably because the unskilled and low seniority workers were laid off first. Thus "average weekly earnings" may rise while earnings of the most employed workers decline. Farm machinery, incidently, is not of very great importance in Milwaukee. Moreover, Allis-Chalmers, the principal factor in this category, has tried to find jobs for farm implement workers in its other lines. A variety of durable goods lines account for most of the announced layoffs.

Milwaukee

	Employment data in thousands [1]					Department store sales [2]		Bank debits [1]	Car registration [3]	Housing permits (private) [4]
	Labor force	Unemployed		Nonagricultural	Manufacturing	Index adjustment	Percent change			
		Number	Percent							
1952								*Thousands of dollars*		
January	--------	9.0	--------	360	190	106	−10	47,217	2,090	166
February	--------	--------	--------	--------	--------	103	−6	43,878	2,139	320
March	--------	8.5	--------	360	190	102	−10	43,784	2,366	598
April	--------	--------	--------	--------	--------	100	+1	44,447	2,321	684
May	--------	7.0	--------	362	192	102	−1	44,693	2,517	706
June	--------	--------	--------	--------	--------	110	−2	47,930	3,083	681
July	--------	23.0	--------	356	184	105	+1	46,312	2,307	638
August	--------	--------	--------	--------	--------	106	−5	42,362	1,876	698
September	--------	9.0	--------	370	198	103	−2	46,263	1,646	604
October	--------	--------	--------	--------	--------	118	+6	45,855	2,397	604
November	--------	6.0	--------	376	203	105	−11	45,253	2,070	489
December	--------	--------	--------	--------	--------	118	+9	51,524	2,614	337
1953										
January	428	10.0	2.4	381	208	105	+1	49,782	2,181	240
February	--------	--------	--------	--------	--------	108	0	47,990	2,468	334
March	427	10.0	2.4	381	209	107	+7	54,417	3,564	569
April	--------	--------	--------	--------	--------	106	+3	49,210	3,691	733
May	426	6.5	1.5	383	209	105	−3	48,957	3,716	760
June	--------	--------	--------	--------	--------	111	+5	48,233	4,037	690
July	430	15.0	3.5	376	200	109	+4	50,061	3,073	1,047
August	--------	--------	--------	--------	--------	104	−2	48,327	3,529	739
September	428	13.0	3.0	378	201	107	+4	48,566	2,480	587
October	--------	--------	--------	--------	--------	109	−6	45,427	3,471	940
November	426	16.0	3.8	374	193	110	+4	50,089	3,196	p 558
December	--------	--------	--------	--------	--------	117	−1	51,623	2,549	--------
1954										
January	428	20.0	4.7	370	189	--------	+2	51,769	--------	--------

p Preliminary.
[1] Industrial Commission of Wisconsin.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] U. S. Bureau of Labor Statistics

MUSKEGON

Settlement of a machinery strike and seasonal hirings did not prevent unemployment from nearing a 4-year high in December. The unemployment ratio was 7.6 percent in December 1953 compared with 1.9 percent 12 months earlier. Manufacturing employment was reduced by about 15 percent from March to December. (Continental Motors accounts for about one-third of manufacturing employment in Muskegon.)

Muskegon

	Employment data in thousands [1]					Department store sales [2]	Bank debits [2]
	Labor force	Unemployed		Total nonagricultural	Manufacturing		
		Number	Percent				
							Thous. of dollars
1952							
January	51.6	1.7	3.3	44.8	29.9	−16	2,685
February	51.8	2.0	3.9	44.7	29.9	−11	2,729
March	51.6	2.1	4.1	44.4	29.5	−14	2,714
April	[3] 51.6	1.6	3.1	44.5	29.3	+8	2,575
May	[4] 51.5	1.9	3.7	44.1	28.8	+9	2,793
June	51.9	1.3	2.5	45.5	29.9	+6	2,834
July	53.1	1.3	2.4	46.7	31.0	+2	2,428
August	52.8	1.5	2.8	46.2	30.6	+11	2,699
September	52.7	1.2	2.3	46.4	30.7	+7	2,548
October	52.7	1.0	1.9	46.6	30.9	+3	2,523
November	52.8	.9	1.7	47.8	31.2	+2	2,866
December	53.3	1.0	1.9	47.4	31.7	+23	3,124
1953							
January	53.7	1.3	2.4	47.5	30.8	+27	3,160
February	53.9	1.2	2.2	47.8	32.9	+6	3,159
March	53.9	1.2	2.2	47.9	32.9	+19	3,088
April	53.6	1.4	2.6	47.4	32.2	+7	3,040
May	53.1	1.5	2.8	46.8	31.3	+13	3,284
June	53.4	2.0	3.7	46.5	30.9	+16	3,487
July	53.7	2.1	3.9	46.7	30.9	+10	3,135
August	53.5	2.9	5.4	45.7	30.1	−12	2,974
September	[3] 53.2	2.8	5.3	45.5	28.1	+5	2,835
October	53.2	3.3	6.2	44.0	28.4	−2	2,727
November	53.2	3.8	7.3	43.1	27.5	−9	2,714
December	52.6	4.0	7.6	43.8	28.1	−11	3,030
1954							
January	----------	----------	----------	----------	----------	----------	2,993

[1] Michigan Employment Security Commission.
[2] Federal Reserve Bank of Chicago.
[3] Includes 400 workers involved in strike.
[4] Includes 600 workers involved in strike.

PEORIA

About two-thirds of manufacturing employment in the Peoria-Pekin area is accounted for by the Caterpillar Tractor Co., which holds about the same relative position in its home town as Nash does in Kenosha. In addition, the city also includes LeTourneau, a much smaller firm specializing in earth-moving equipment. Almost all of the reduction in jobs in the Peoria area has been accounted for by these firms and further layoffs were expected in January. Peoria offers a striking example of the effects of out-migration in keeping down unemployment totals. Between November 1952 and November 1953, nonfarm employment dropped 6,075 but estimated unemployment rose by only 1,750 to 3.9 percent. If all of the workers laid off would have remained in the local labor force the ratio would have been about 8 percent. The unemployment compensation claims load doubled between November and January, but there is a strong seasonal fluctuation caused by post-Christmas layoffs of the alcoholic beverage manufacturers.

Peoria

	Employment data in thousands [1]					Department store sales [2]	Bank debits [2]	Car registration [3]	Housing permits (private) [4]
	Labor force	Unemployed		Nonagricultural	Manufacturing				
		Number	Percent						
							Thousands of dollars		
1952									
January					48.9	−17	7,717	569	8
February					49.0	−1	8,057	562	18
March					48.9	−8	8,151	608	28
April					48.6	+6	8,304	847	43
May					47.8	+4	7,856	785	20
June					48.1	+4	8,590	737	13
July					45.6	−4	7,722	719	33
August					35.3	+4	6,943	363	36
September					47.1	+8	8,439	592	26
October					46.8	+5	8,893	706	22
November					47.5	−5	8,302	565	22
December					47.1	+10	8,956	786	8
1953									
January	117.2	4.5	3.9	95.0	46.7	+6	7,838	914	5
February						−3	7,807	719	11
March	115.9	3.7	3.2	94.5	46.5	+7	8,631	1,040	25
April						+3	8,340	892	43
May	116.7	3.5	3.0	95.3	46.5	0	8,455	873	21
June						+13	9,029	1,318	18
July	117.1	3.1	2.6	96.0	47.0	+8	8,949	1,021	40
August						+6	8,626	970	17
September	116.3	3.1	3.2	95.2	46.6	+4	8,994	1,113	24
October						−5	9,076	923	25
November	113.1	4.5	3.9	91.0	42.3	+1	8,877	624	[5] 9
December						−7	8,520	725	
1954									
January							8,149		

[1] Illinois State Employment Service.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] U. S. Bureau of Labor Statistics.
[5] Preliminary.

THE QUAD CITIES

(Davenport-Rock Island-Moline-East Moline)

In the spring of 1953 farm implement manufacturing accounted for about one-half of the Quad Cities manufacturing workers which means about one-fourth of total employment. Between March and November of 1953 manufacturing employment declined by over 16 percent, largely as a result of a drop of one-third in farm machinery. Unemployment rose to 5.4 percent from a negligible figure despite an estimated 3,000 reduction in the farm labor force through out-migration. In early 1954, however, the situation was stabilizing and there was a prospect of a seasonal pickup in hirings by farm implement firms. This comeback of farm equipment, however, is expected to be only a "partial recovery."

Quad cities (Davenport-Rock Island-Moline-East Moline)

	Employment data in thousands [1]								
	Labor force	Unemployed: Number	Unemployed: Percent	Nonagricultural wage and salary	Manufacturing	Department store sales [2]	Bank debits [2]	Car registration [3]	Housing permits (private) [4]
							Thousands of dollars		
1952									
January						−26	6,186	479	38
February						−23	5,881	558	78
March						−13	6,099	520	96
April						−8	5,917	687	151
May						−3	6,532	790	139
June						+3	6,476	784	114
July						−3	6,080	585	89
August						+3	5,849	411	109
September						−14	6,334	515	105
October						−2	6,376	609	114
November						−2	6,501	554	50
December						−1	6,753	699	39
1953									
January	116.5	2.1	1.8	96.2	50.9	−3	6,612	760	28
February						−1	6,623	706	27
March	117.3	1.8	1.5	97.1	51.8	+6	6,796	803	80
April						−4	6,441	963	116
May	117.4	1.5	1.3	97.3	51.2	+3	6,883	1,126	64
June						+6	7,159	1,160	62
July	119.2	2.7	2.3	97.4	50.4	−5	6,717	1,018	83
August						−10	6,179	843	119
September	115.6	4.1	3.6	92.7	45.9	−4	6,680	880	61
October						−14	6,428	911	80
November	114.5	6.2	5.4	90.1	43.4	−6	6,889	625	[5] 42
December						−12	6,805	634	
1954									
January							6,615		

[1] Illinois State Employment Service and Iowa State Employment Service.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] U. S. Bureau of Labor Statistics.
[5] Preliminary.

RACINE

Manufacturing employment was almost 14 percent lower in January 1954 than at the peak in May of last year. Unemployment at 3,100 in January was estimated to be 6 percent of the labor force. However, little further weakening was expected in March as a result of some seasonal pickup in farm implement needs. J. I. Case and Massey-Harris, farm machinery producers, are the two principal employers in Racine.

Racine

	Employment data in thousands [1]				
	Nonagricultural wage and salary	Manufacturing	Bank debits [2]	Car registrations [3]	Housing permits (private) [4]
			Thousands of dollars		
1952					
January	26.0	21.6	2,798	309	11
February			2,815	253	26
March	26.4	22.1	2,848	272	57
April			2,811	291	61
May	26.5	22.2	2,714	350	69
June			3,038	329	66
July	25.3	20.9	2,642	316	43
August			2,583	240	46
September	23.3	18.8	2,936	174	48
October			2,928	301	68
November	24.4	19.9	2,707	288	27
December			3,225	361	30
1953					
January	24.6	20.1	2,948	309	11
February			3,129	308	27
March	25.1	20.5	3,071	451	63
April			2,967	428	61
May	25.8	21.3	3,072	463	50
June			3,233	492	40
July	25.0	20.4	2,929	378	54
August			2,765	409	73
September	24.4	19.8	2,918	280	33
October			2,873	416	34
November	23.8	18.8	2,981	437	10
December			3,315	366	
1954					
January	23.4	18.4	2,806		

[1] Reporting establishments only. Industrial Commission of Wisconsin.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] U. S. Bureau of Labor Statistics.

SOUTH BEND

No recent data is available on the number of workers in South Bend. However, a private source indicates that man-hours worked in 44 principal plants were down about 23 percent from March to December of 1953. Studebaker accounts for perhaps one-third of manufacturing employment in the area when that firm is operating at a good level, but Bendix-Aviation and a number of other plants are also important. Studebaker announced further layoffs in early 1954 as a result of heavy stocks of cars. However, workers voted for a 4-day week rather than layoffs and elimination of the night shift. As in several other towns of its type South Bend surveys indicate that many laid-off workers have left town and others have found employment in noamanufacturing lines.

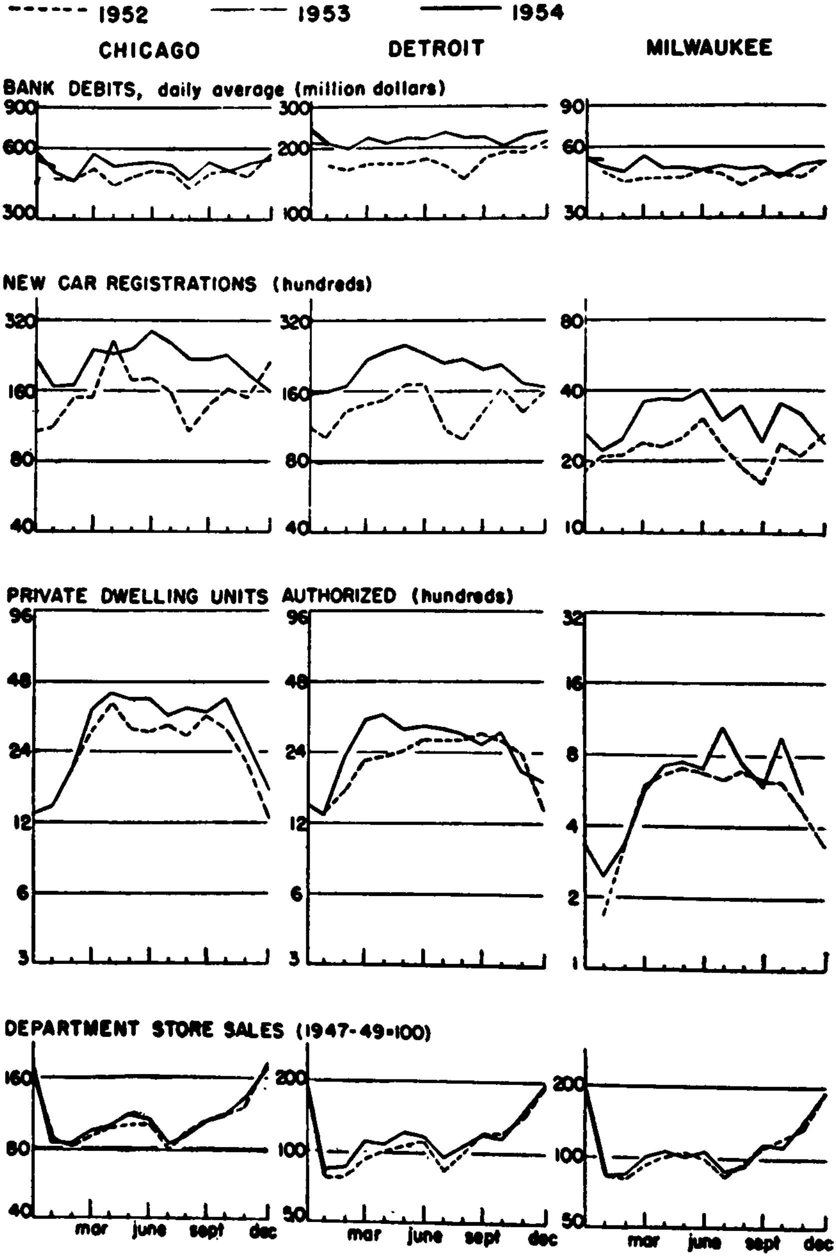
South Bend

	Man-hours worked 44 plants [1]	Department store sales [2]	Bank debits [2]	Car registration [3]	Housing permits [4]
1952	*Thousands*		*Thousands*		
January	7,660	−9	$8,370	573	83
February	7,389	+1	8,111	596	112
March	8,048	−13	8,387	760	143
April	7,541	+2	7,980	723	207
May	7,593	+2	8,249	1,071	212
June	7,849	+7	9,016	1,041	161
July	4,735	+8	8,026	682	178
August	N. A.	−1	7,718	293	262
September	7,284	−1	8,876	627	150
October	N. A.	+9	8,632	551	214
November	8,766	+1	9,184	798	144
December	7,400	+11	9,593	448	59
1953					
January	8,559	+3	9,400	587	106
February	7,675	+4	9,252	507	117
March	8,669	+16	9,855	595	175
April	8,130	+12	9,395	970	157
May	8,088	+8	9,430	1,401	283
June	7,492	+15	9,988	1,593	187
July	8,021	+9	9,399	1,155	212
August	7,456	+8	8,470	998	182
September	7,313	+2	9,089	856	170
October	7,152	−7	8,847	1,683	158
November	6,783	+4	9,018	1,047	[5] 162
December	6,630	−5	9,736	767	----------
1954					
January	----------	----------	8,579	----------	----------

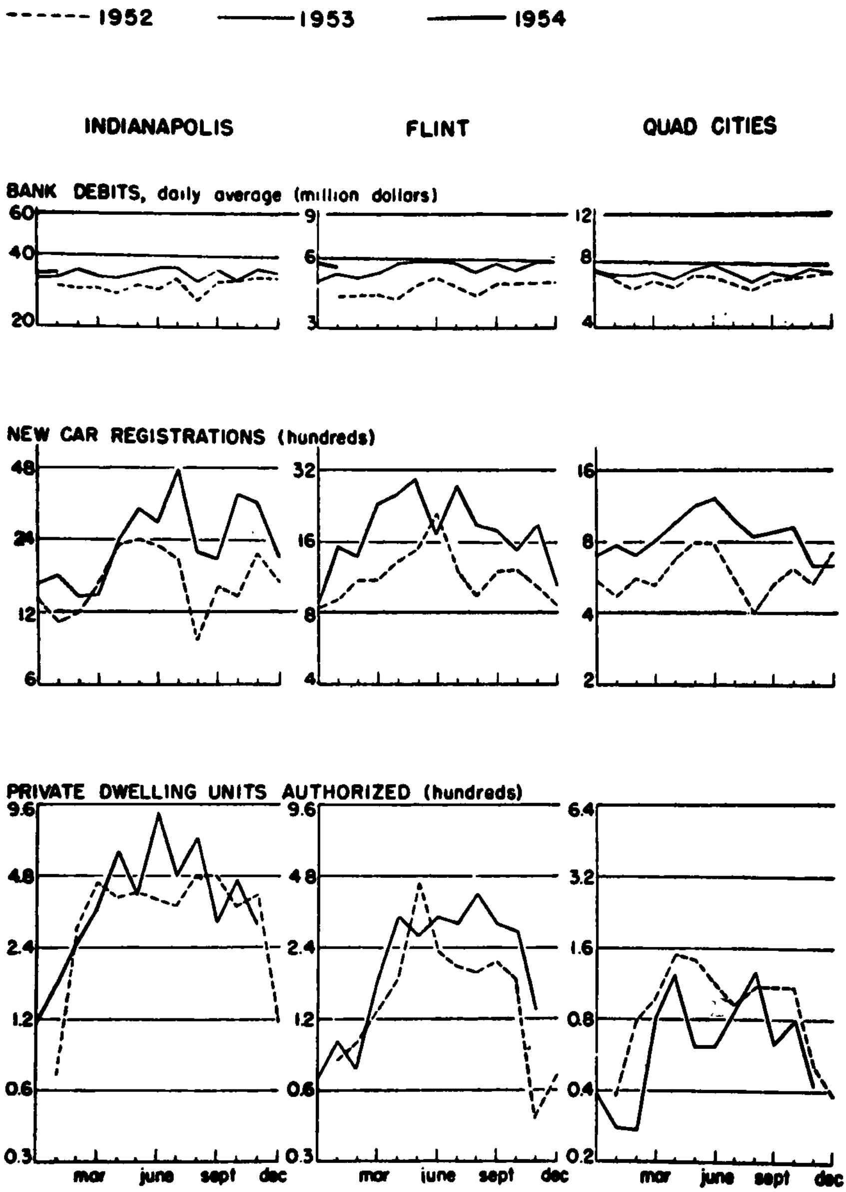
[1] South Bend, Ind., Association of Commerce.
[2] Federal Reserve Bank of Chicago.
[3] R. L. Polk & Co.
[4] U. S. Bureau of Labor Statistics.
[5] Preliminary.

N. A.—Not available.

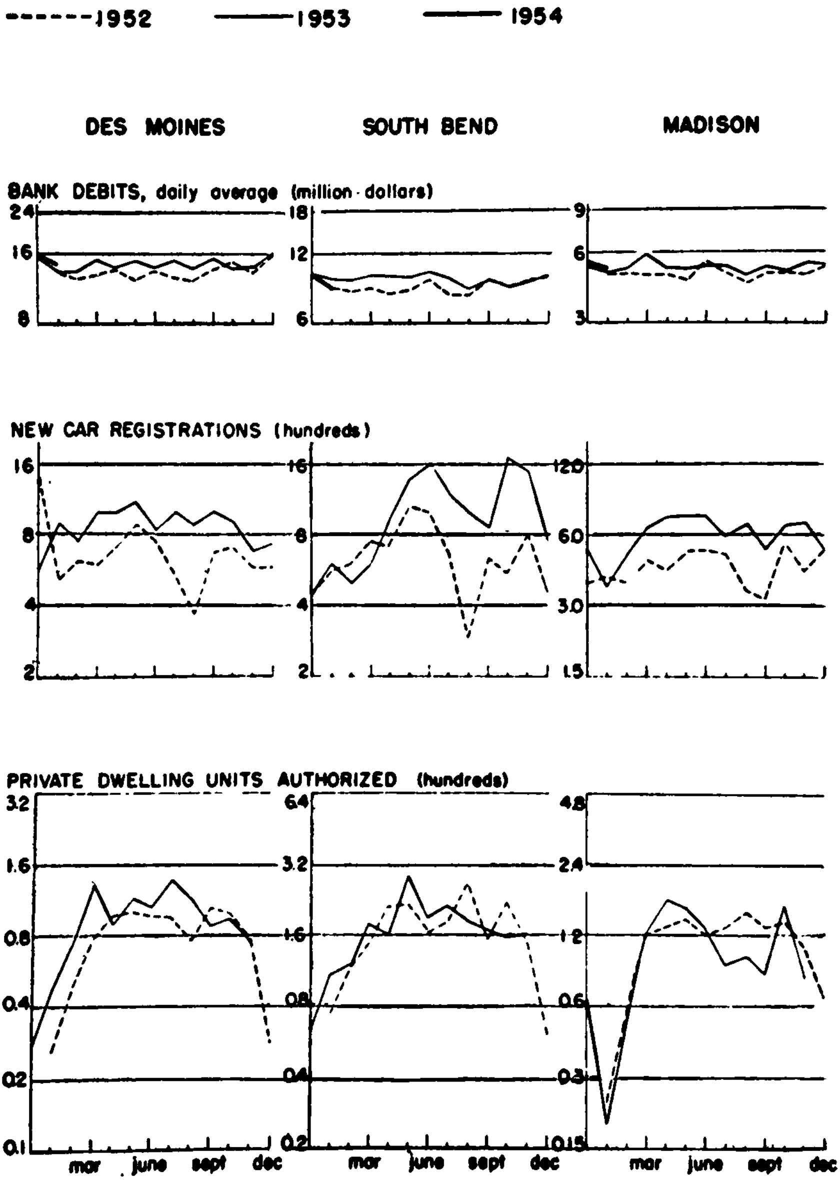
SELECTED SEVENTH DISTRICT METROPOLITAN AREAS



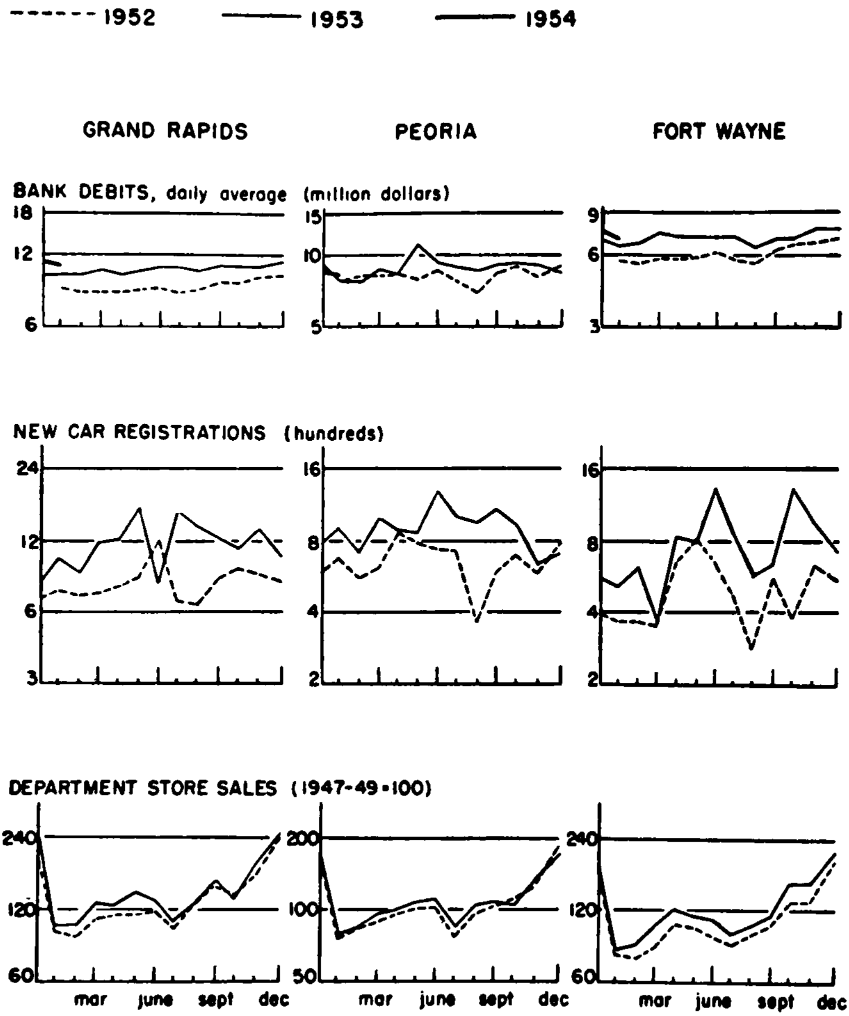
SELECTED SEVENTH DISTRICT METROPOLITAN AREAS



SELECTED SEVENTH DISTRICT METROPOLITAN AREAS



SELECTED SEVENTH DISTRICT METROPOLITAN AREAS



Chairman WOLCOTT. Thank you very much.

Mr. Elliott mentioned the manner in which the Federal Government could be of assistance by way of advancing credits.

Do you want to elaborate a little bit more upon that? How would you recommend that the Federal Government might help in that connection, advancing credit?

Mr. ELLIOTT. I think that Mr. Mitchell will bear me out on this. It is my estimation that local governments are quite limited in their general obligation bond issues to approximately $100 per capita in the bond market. That means an overlapping debt; for instance, your schools, which may be separated from your city; your county may have a little debt, and then the city comes in, or vice versa, and the last one in, if it sells its bonds, has to take a much lower rating on the bond market, and the interest rate goes up considerably.

This situation is now faced by the city of Saginaw in our own State.

I felt myself that if some method could be used to advance money—and I certainly would not want it considered as a grant-in-aid at all—the local units want to pay the money back and should pay it back. We are not asking for any handouts. I feel that the Government could loan its credit to the cities so that they could take advantage of stepping up their program. In other words, if they had a program of capital expenditures of 5 or 6 years, it might be telescoped in 2 years to help the situation out if needed.

I am not a pessimist, however, and I want you to know that. I really feel quite confident in the next few months, anyway, that this adjustment period that we are going through will be well taken care of by the recommendations made by the President.

Chairman WOLCOTT. Do you have in mind also, perhaps, that we might, in respect to matching moneys for public works, advance a larger portion of the Federal moneys in anticipation of the municipalities' meeting their obligations? Or don't I make myself clear? But let us make it very simple, in respect to highways as applied to the State level.

We appropriate something like $500 million a year, or something over that, for the States, and the States have to match it. Now, some of that at least trickles down to the municipalities.

Mr. ELLIOTT. That is right.

Chairman WOLCOTT. And I presume the municipalities have to have their credit available, or their 50 percent of it available, before they contact the State highway departments in anticipation of the State highway departments getting in touch with the Federal Government to release that portion of the Federal share that is forthcoming.

You have in mind that perhaps instead of having to commit yourself or put the money on the line, there might be a disproportionate share advanced by the Federal Government in anticipation of municipal revenues to take care of their side?

Mr. ELLIOTT. That is right.

Chairman WOLCOTT. Possibly, you have more in mind a practice which has grown up in some States between the States and the school districts, in which the school districts get a certain portion of certain tax collections which go into special funds for that purpose. Many of the States, as I understand it, advance to the school districts moneys in addition to the collection of revenues.

Mr. ELLIOTT. That is right. That is the problem I had in mind.

I want to make myself clear again, though, that I do not think that the Federal Government should consider it as a handout in any way, shape, or manner, not even for planning. I think that the local communities can handle their situation.

Chairman WOLCOTT. You have in mind the time when our economy is in a situation where it might need these additional public works to bolster it up?

Mr. ELLIOTT. That is right.

Chairman WOLCOTT. Mr. Freeman, I think this question should be addressed to you. I notice that you call attention on two occasions to the question of overlapping tax structures.

Mr. FREEMAN. Yes.

Chairman WOLCOTT. And you recommend that certain taxes which are now collected by the Federal Government should be left to the

States. Will you elaborate somewhat more upon that? Have you any specific recommendations to make in that connection?

Mr. FREEMAN. Yes, sir. If I may go back to the years 1947–48, when a committee of the Governors' Conference conferred with a special committee of both Houses of Congress, they arrived at a program at the time to gradually reduce Federal grants-in-aid—at that time there was proposed a reduction of 20 percent—and turn certain taxes over to the States for their use. Several of the resolutions passed by the Governors' Conference in the years since 1948 and by the General Assembly of the States run in the same direction. Now, the first tax, for instance, is the admissions tax which is ideally suitable for municipalities. It can be used by them, and there is actually no need for the Federal Government to collect it.

The second tax which has been——

Chairman WOLCOTT. May I interrupt? That is the Federal excise taxes?

Mr. FREEMAN. Some of the Federal excise taxes.

The second one, of course, is the question of the gasoline tax. At the present time, the Federal Government collects a 2-cent tax, amounting to about $910 million a year. And the present appropriation for highway aid is $575 million.

Now, the Governors' Conference has resolved several times asking for the 2-cent tax. Of course, the complaint has been heard by several people interested in the road program that some States may not reimpose the 2 cents. In other words, some funds would be lost to the highway program. The idea has been advanced that a credit device could be inserted along the same lines as are presently used in the inheritance tax and in the payroll tax, in other words, that those States which increase their State gasoline tax by 2 cents would be relieved of paying the Federal tax.

That would cause the States to raise their tax rate at their next legislative session and the highway program would then have more money available than it has at the present time. The philosophy behind it is that the more money States or local governments can raise under their own power, the more they will be able to maintain their autonomy, because inevitably political independence is tied in with fiscal independence.

The basic attitude of the executives of the States has been that they would rather raise the needed revenues under their own responsibility.

Chairman WOLCOTT. Thank you for that. A problem confronts us in that which embarrasses us in the Federal Government to be frank, that although we collect, as you suggest, about $900 million in gasoline taxes, we appropriate annually only about $500 million or $575 million. The rest of it goes into the general fund of the Federal Government.

Now, I am just going to ask a question and then try to answer it myself. What happens when States divert their gasoline taxes for other purposes, for example, institutional purposes? They are penalized, are they not, by having their Federal shares cut down?

Mr. FREEMAN. Mr. Chairman, under the Hayden-Cartwright Act, the States are penalized in their Federal matching money if they divert more from the gasoline tax than they did divert back in 1935. At the present time, most States, have constitutional or statutory provisions which forbid the diversion of any money raised through highway user taxes to anything but highway purposes. And if you total the figures for all the States, you will find that even in those States where there is no constitutional provision—and most States do have the provision now—even in those States, more money is being spent on highways than is being raised by highway user taxes, because actually what happens is, as you know, that the relative strength of pressures during legislative sessions determines the allocation, and I would say that the highway interests, together with a few others, which I do not need to mention, see to it that the money goes into the right channels.

Chairman WOLCOTT. Thank you, Mr. Freeman.

It always seemed to me that the Federal Government itself was violating the principle of that act more than any of the States. They divert almost half of the moneys which they collect to other purposes than highway purposes.

Mr. FREEMAN. Mr. Chairman, the States have not followed the example of the Federal Government in increasing indebtedness, and they do not follow the example in diverting highway funds.

Chairman WOLCOTT. Thank you, Mr. Freeman.

Representative PATMAN. I would like to ask Mr. Manvel about the local governments' borrowing.

I want to state parenthetically, Mr. Chairman, that the statements today are unusually good. Several witnesses have pointed out the high cost of servicing the local debts in the last 7 months or last 6 months.

How did the monetary policy of the first 6 months of 1953 affect local, State, county and other political subdivisions? Did it greatly increase their interest rates?

Mr. MANVEL. I really think that probably Mr. Mitchell or Mr. Freeman has followed that more closely than I.

Representative PATMAN. Mr. Mitchell, then.

Mr. MANVEL. I am not trying to dodge it.

Representative PATMAN. I understand.

Mr. MITCHELL. I do not know precisely what the increase was; but there was an increase, and some issues were withdrawn temporarily from the market.

Representative PATMAN. There was a substantial increase, was there not?

Mr. MITCHELL. Yes.

Mr. FREEMAN. I can give you the exact figure. Actually, the average municipal bond yield, which is generally the measure by which new issues are gauged—in other words, you take the average bond yield and then measure and say that a particular issue should yield half of 1 percent more or 1 percent more or less—but the average actual yield, the municipal Dow-Jones was in January 1953 2.61 percent. At the top, in June, it was 3.06 percent, and is now down to about 2.4 percent.

Representative PATMAN. That is almost a half percent.

Mr. FREEMAN. It rose between January and June by pretty close to one-half of 1 percent.

Representative PATMAN. Bonds that were floated during that time carried that increase; did they not?

Mr. FREEMAN. They carried a higher interest rate.

Representative PATMAN. How long did those bonds usually run? For 20 years? 30 years? 40 years?

Mr. FREEMAN. I think 20 years would probably be a good average.

Representative PATMAN. Most of them?

Mr. FREEMAN. Yes.

Representative PATMAN. Something has been said here concerning the local governments and States.

Mr. FREEMAN. May I add one word; actually, the trend of increasing bond yields did not start in January 1953, but started in 1951.

Representative PATMAN. I am familiar with that. It started in the middle of 1947, when they increased the short-term security rate, and then in 1951, when they had that "shotgun wedding" between the Federal Reserve Board and the Treasury. That is when they took out the peg, and when the harm really started. They went along rather easily and slowly with that new power they had, and there was only just a little drop. They did not get into high gear with their new powers and duties and responsibilities until January 1953. That is when the bottom really fell out of the local securities; was it not?

Beginning in January 1953 and continuing until the hard-money policy changed.

Mr. FREEMAN. But at the same time, the increase between 1951 and January 1953 was from 1.58 percent, which was the low point, to 2.61. That is an increase of 60 percent in the rate.

Representative PATMAN. I think it was reflected more in tax-exempt securities than anything else.

Mr. FREEMAN. Yes.

Representative PATMAN. This is the point I want to bring up for consideration. The 120,000 States, counties, cities, school and road districts, and granges and other political subdivisions have outstanding now $33 billion in securities. All of those securities are tax exempt. How much more in tax-exempt securities can we issue in this country without reaching a point where the wealth of the Nation will have drifted into tax-exempt securities and pay no part of the running of any of these 120,000 subdivisions, or States, and no part of the running of the Federal Government. Do you not see that as a real danger, too?

Mr. FREEMAN. Well, sir, the tax-exempt status of State and municipal bonds is not only an economic but a basic constitutional question——

Representative PATMAN. I know it does, because we took the tax exemption away from Federal bonds.

Mr. FREEMAN. Yes.

Representative PATMAN. But even Mr. Roosevelt at the height of his popularity was unable to make any progress in taking it away from the cities and States and other political subdivisions. So I think that is out. That is in the past. We might just as well recognize the fact that they will never be taken off. I do not think they will be.

Mr. FREEMAN. That is correct.

Representative PATMAN. Because it was tried at a time when you would be more likely to succeed, and it did not succeed at all. It did not even get a good start. And in view of that experience, I think we should just consider that the tax exemption is going to remain.

Mr. FREEMAN. Right.

Representative PATMAN. And do you not think that we should keep in mind, in making these expenditures, if it could be made with bonds that did not have the tax exemption, it would be better in the long run for our entire economy?

Mr. FREEMAN. Well, sir, if the public works program were largely financed by the Federal Government, you would, of course, have a greater flow of power again to the Federal Government, and greater centralization. That is a question of philosophy rather than economy.

Representative PATMAN. I do not want to take up too much time. I just want to invite your attention to a major problem which I think is confronting us now and for the future. We do not want to have so much in tax-exempt securities that the real wealth of the country can avoid responsibility or cost to any government of any kind, from the United States Government on down.

Was it you who suggested that we should have a reservoir of credit for the States and counties and cities?

Mr. FREEMAN. No, sir, Mr. Elliott.

Representative PATMAN. Do you have something in mind which would parallel the arrangement that is existing now in the FDIC with respect to the banks? The Federal Deposit Insurance Corporation has at its disposal a backlog of credit of $3 billion that the Treasury is obligated to furnish if and when it is needed. Is it your proposal that there should be some reservoir of credit available from the Federal Government at all times to take care of emergency situations arising in the State and local governments?

Mr. ELLIOTT. Yes; that is what I had in mind.

I would like to make one other statement while I have the microphone here in front of me. I appreciate very much what Mr. Freeman has said. The State of Washington is one of the very few States in the country that has seen fit to bless its local governments with certain sources of revenues that may be called excise taxes, and so forth. I know my State, which is controlled largely by the rural people, have not seen fit to consider other sources of revenue for municipalities and the school districts, and I could take you into places like Illinois and Iowa, where my friend sitting next to me lives, and there is very little other than property tax going back from the State to the local units of government to help them in this field.

Representative PATMAN. Just one other question that I would like to ask, and I will be through. I do not want to monopolize the time of the committee and the witnesses. That is about transcontinental highways.

There is a lot of talk in Congress about developing a program for national, financed wholly by the Federal Government, or transcontinental highways, for national defense purposes as well as for other purposes. This program would also be useful, certainly, in the event there is a recession of any consequence. What is your opinion about a program that would lead to a national system of highways, involving perhaps three transcontinental highways from east to west and a like number from north to south?

Mr. FREEMAN. Generally, the governors of the States have stated repeatedly that they feel that no further State function should be transferred to the Federal Government, and the President has indicated in his budget message that he rather envisages a transfer of some functions to the States.

Representative PATMAN. This is a little bit different, I think, since national defense considerations, which go beyond any local question, are so heavily involved.

Mr. FREEMAN. Through cooperation between the States, there have developed certain connecting roads which form the interstate highway system. In other words, there is no substance in fact to the claim that if you leave every State to its own, some road will wind up at a State line at one place, and in the next State it will wind up at a State line some other place, and they will not connect. The State highway departments cooperate, so that, just as in the case of the toll roads, which are completely free of any action of the Bureau of Public Roads, the roads do connect. The program of further development of the interstate highways could be worked out very well between the States. And while we very much appreciate the technical assistance and the advice of the Bureau of Public Roads, the States generally feel that they are fully capable of running their own highway program.

Representative PATMAN. Thank you, sir.

I want to ask Mr. Mitchell one question. Do you see any danger in issuing so many tax-exempt bonds?

Mr. MITCHELL. This is an important subsidy to the State and local governments in their capital operations. It is a pretty costly subsidy as far as the Federal tax yields are concerned. I do not think that the volume of State-local securities is likely to be large enough to be a widespread threat in 1954. The yields on tax-exempts approximated those of long-term governments, indicating, perhaps, a saturation of the market at the moment. Of course, that situation is reversed now.

Representative PATMAN. That is all.

Chairman WOLCOTT. May I clear up one point here?

I have the Federal Reserve report from January with respect to high-grade municipals, average rates, and so forth. Is the trend on the average over the last 60 days up or down?

Mr. MITCHELL. It is down. Yields are declining.

Chairman WOLCOTT. I notice the 1951 average was 2; the 1952 average was 2.19.0 December 26, which is the last yield reported in the January bulletin, it was down to 2.60, and you say the trend is down instead of up?

Mr. MITCHELL. Well, it is either flat or down. I do not know what the latest figure is.

Chairman WOLCOTT. Apparently it has leveled off from the high in June and July of 1953.

Mr. MITCHELL. Yes. It has declined very sharply from that point.

Representative BOLLING. Mayor Micich, I congratulate you on your expressed wish that a bipartisan approach should be worked out to act quickly in the area of unemployment. Somewhat facetiously, I would like to point out to you that you now occupy an absolutely unique position. You are, to my knowledge, the first Republican in the United States who has publicly joined that select group designated by a number of political orators recently as "fear dealer," "political sadists," perhaps in your case it would be better to say a "political masochist," and "prophets of gloom and doom."

Chairman WOLCOTT. A political what?

Representative BOLLING. A political masochist. Since they are using such fancy words, I have been using a dictionary recently.

But I congratulate you on it, because those of us who have been concerned about the rising unemployment have felt that, as I believe you obviously feel, it is our duty as representatives of the people in different areas to study the facts. But I would like to call this particularly to your attention, in view of the recommendations that you make. And I would like in connection with this particular bill to have permission for it to be printed in the record with a brief explanation. I would like to call to your attention a bill that Senator Douglas of Illinois and I sponsored jointly, which has to do with public works. Its number in the House in H. R. 7766. Then while you are looking at that, in view of the fact that it is also in line with another of your recommendations, you might be interested in H. R. 7767, which deals with an attempt to get some of these tremendous agricultural surpluses that we have into the hands of people who may not have an adequate diet in this country.

But I take it from your statement that you feel that the situation, at least in your area, is serious enough so that action, aggressive action, should be taken now.

Mr. MICICH. All I can tell you is this. It so happens that other mayors that we have met with out there happened to be Democrats, and their idea was to make a nonpartisan, or bipartisan, approach to the thing, and it seems to be the general censensus of opinion. In view of the fact that the national administration here in Washington, you people, are involved in assailing one another for this, that, and the other thing, I think I made the statement in there, "Words don't fool anyone." People want action, and I think this thing is a malignancy, and irrespective of whether we are Republicans or Democrats, we should take it into consideration and get to work and see what we can do about it. That would be my recommendation.

However, it is very deep and very complicated and very complex. I can readily see that. But I would say that the quicker we get at this malignancy, the less severe it is going to be, because I think this is only a transition in the economy to peacetime economy. But we do not want to let it run too long. It is very serious in Floyd County, in my litle city out there, Charles City. People are forever coming in looking for work and what to do, and a man does not know what to say or what to think. The only thing that I can do is to express my own opinion on the matter, and the Government is concerned in the State of Iowa. Governor Beardsley is very much concerned. I will say that Mr. H. R. Gross is concerned. I talked yesterday to Senators Gillette and Hickenlooper. They are both concerned. What the solution to the problem is, I do not know.

Representative BOLLING. Thank you very much.

Chairman WOLCOTT. I would like to call attention to the fact that we are approaching this agricultural problem, in this Committee, at least, in a bipartisan manner. Tomorrow our panel is on the agricultural outlook and implications on the Federal economic policies.

Representative BOLLING. Now, Mr. Chairman, in view of the fact that Mr. Moses has not been able to be here, and consequently his statement was not read, but will be inserted in the record, I would like to point out that there are a number of statements in here which seem to me very significant. I could read them quite briefly and ask the panel to comment on them. I presume Mr. Moses' statement is available to all members of the panel as well as to the committee.

Chairman WOLCOTT. They can be made available if they are not.

Representative BOLLING. Early in his statement Mr. Moses says:

> There is not a State, city or municipal subdivision in the country which can, on its own, finance a depression construction program sufficient to make a dent in the employment problem. Federal assistance is required.

Farther down the page, actually, the beginning of the third whole paragraph on the page, Mr. Moses says in his statement:

> Preparedness against recession is just as vital as preparedness against enemy attack and in either case time is required to make ready. It is difficult to estimate the size of the shelf of plans originally prepared in anticipation of a postwar depression but obviously as more and more construction has been done, the shelf has shrunk.
>
> The President's Council of Economic Advisers has recently gathered some statistics covering the backlog of plans for recession public works prepared by States and municipalities in recent years with funds of Federal, State, and local origin. These backlogs represent efforts to avoid being caught again without some worthwhile programs and condemned to made work and handouts in the event of serious unemployment. These studies seem to me to be on the overoptimistic side and to require careful checking. One set of figures, for example, purports to show that land has in most cases already been acquired for these improvements. I doubt this very much.

Now, you, Mr. Chairman, will remember that both when the Chairman of the Council of Economic Advisers was here and when the representative of the Bureau of the Budget was here, I made considerable inquiry in an attempt to determine how much flexibility there actually was in the reservoir of the public-works program that existed presently available, and how much money there was to implement it. If I am in error in my conclusion from what we heard, please correct me, but I got the very clear impression that there was very little flexibility in this particular field and, it is for that reason that Senator Douglas and I introduced this legislation to which I have previously referred, which provides for a coordinating agency under the direction of the President to provide for the more effective planning, coordination, and programing of public works. And I asked previously that this bill and a brief explanation of it be included in the record, but I am not sure I got that permission.

Chairman WOLCOTT. I do not think you did. I am sorry.

I would think that particular bill, excepting for statements with respect to them and their objectives would not be proper to be put into this record.

Representative BOLLING. I will ask permission that I might put a statement in explanation of the bill in the record.

Chairman WOLCOTT. I would think there is no objection to that. I do that, Mr. Bolling, with the idea that many of us would like to put bills into the record. I am afraid that the record would thus be an accumulation of bills, private and otherwise, which would destroy the effectiveness of our study, especially since we do not want the study to be pinpointed on any particular bill. We can make recommendations with respect to legislation which the bills might cover.

Representative BOLLING. I have no objection to its being handled in that fashion, just so long as I can put in an explanation.

Chairman WOLCOTT. Without objection, an explanation to the bill will be permitted.

Representative BOLLING. Senator Paul Douglas, Democrat of Illinois, and I introduced on Monday, February 8, 1954, companion bills in the House and Senate to provide for more effective planning, coordination and programing of public works.

The Douglas-Bolling Bill, H. R. 7766, entitled the "Public Facilities Act of 1954," (1) enables Congress to carry out its responsibilities to the people by planning ahead and preparing programs to assure continued economic stability and growth; (2) provides machinery for the advanced planning of public works programs which would be available immediately for implementation; (3) centralizes responsibility for such planning and action in the President and authorizes the establishment of a special office for his assistance; (4) stimulates Federal public works and community development through cooperation of the Federal, State, and local governments. Today, no such unified approach or integrated public works program exists; advanced planning is not conducted on a comprehensive basis nor is responsibility for such leadership centralized in any agency.

The bill establishes a Public Facilities Administrator, appointed by the President with the advice and consent of the Senate. He is to be aided by an advisory committee consisting of representatives of Federal agencies concerned with public works and with assisting State and local government programs.

The Douglas-Bolling bill directs the President, with the assistance of the Administrator, to devise programs for submission to the Congress to aid in the construction of needed public facilities by the Federal, State, and local governments and authorities set up under the jurisdiction of State and local governments. The President is authorized, after determining that such need exists, to accelerate Federal public works programs. The President is directed to include in his annual economic report to the Congress: (1) specific information on the reservoir of public facilities needed and planned by all levels of government; (2) the policy of the Federal Government with regards thereto; (3) recommendations for legislation to implement that policy.

I would like to point out that Mr. Moses, with respect to his recommendations, on page 12 of his statement, summarizes by suggesting an executive assistant to the President to administer an emergency public works program, and then goes on down to make a series of suggestions which I assume the panel can read more quickly than I can read them. I would like to get the comments of each of the members of the panel on Mr. Moses' suggestion.

Chairman WOLCOTT. Are there any members of the panel who are ready to proceed?

Mr. MITCHELL. Mr. Moses' statement, which begins with a reference to the recession or depression of the thirties, seems to me to assume we now face a very sharp and prolonged downturn in business activity. Under those conditions, a drastic move toward public works has to be projected over quite a long period of time.

I think public works are not effective in a short period of time. If you want to move quickly and get a prompt result on your countercyclical measures, I do not think public works are very helpful. If you are anticipating a long drawn-out period of a recession, with a high rate of unemployment such as we had in the thirties, then public works can be——

Representative BOLLING. Do I gather from that that you do not feel that we should have available at all times the machinery which could be triggered into action to eliminate at least some of the very substantial delay which always does exist in a public works program?

Mr. MITCHELL. We should have machinery to trigger that part of the public works program that can be triggered, but there is a good deal of it that cannot be.

Representative BOLLING. Obviously it takes a long time to get public works to have a substantial effect if no planning has been done in advance of a serious situation.

Mr. MITCHELL. Yes. But it involves more than planning. If a public-works program is going to be carried on at the State-local level, you have to get a good State-local acceptance of the projects. You have to find sites that are locally agreeable, and you have a great many constitutional, statutory, and procedural barriers that have to be overcome, and this takes a great deal of time. If the work is done by the Federal Government, it can be accelerated much more rapidly than it can at the local level or the State level.

There is one area in which I think the States and localities can be quite responsive, and that is in the highway field, where they do have and have had for many years planning units which have been working in coordination with the United States Bureau of Public Roads, so that they in effect have an important shelf of plans which can be placed in operation more readily and more quickly than in probably any other field. However, in school construction, which is a pretty crucial and drastic problem in many localities now, there does not seem to be any possibility of acceleration.

Representative BOLLING. Now, are you saying that you feel that the present status of the planning and coordination at all levels is satisfactory?

Mr. MITCHELL. No. I am not saying that. I am saying that it probably is about as satisfactory as you can expect it to be in the highway area, and while some further improvement is always possible, I do not think that planning alone is so significant a part of the whole problem of timing public works as to make improvement in this one sector very important.

Representative BOLLING. Would the rest of the panel care to comment on that?

Mr. FREEMAN. It is rather difficult to comment on one part of a 13-page paper without having had an opportunity to study it in its entirety. In other words, it is obvious that Mr. Moses' paper carries certain implications throughout the report which are expressed in the program, and I would be very reluctant to say specifically what my attitude would be without having had an opportunity of seeing and reading the rest of it.

Representative BOLLING. Perhaps I could simplify it.

Mr. FREEMAN. Yes. But basically, as Mr. Mitchell said, I would say that the greatest progress so far in advance planning has been in many of the States in the highway field, where quite a few States have 5- or 10-year or even longer programs. Our State has, and I know that quite a few other States do. In some States, you have coordinated planning. For instance, Maryland just published an excellent report of their State Planning Commission.

In some other States, that job is split up between so many agencies and so many boards or commissions or officers that there is no coordinated planning. I very well see that some coordination may be possible. The difficulty is this. For instance, let us look at the school program. The U. S. Office of Education published last week the final report on the status phase of their school-facilities survey. It came up, if I remember rightly, to about $10 billion. But those surveys were made in the individual States by their own standards, and they are actually not comparable, and the totaling of them is not very meaningful. In other words, some State may regard as unsatisfactory maybe 10 or 15 percent of the schools, and in other States, which may have the same status of facilities, they may say, "Well, we regard 45 percent as unsatisfactory."

Now, in the school field, of course, you can have a great deal of planning, but not for 10 years, because population shifts, and, of course, the birthrates for the next few years are hard to determine.

The other difficulty is in advanced planning. The first question is, "How big a program are you planning?" In other words, the plans may be different as to rehabilitation or minor improvements if you have, let us say, in one State a $20 million program in mind, or in case a serious depression develops, you would want, say, a $100 million public-works program, which would mean that $20 million plans might be worth very little.

Now, I would agree basically with the approach of the War Reconversion and Mobilization Act of 1944, which has done a great deal of good, although some of the money was probably wasted. Some of the advances were made to localities on plans that were never carried out. I think somebody once called that act the Architects' Full Employment Act of 1944.

Many localities cannot make advance plans, which are sometimes quite expensive, because it is not just the question of deciding "We want to spend $10 million," but to get drawings and blueprints and have the surveys made. That is quite expensive. And I can see a great deal of value in continuing such a program of advance loans, possibly, in the case of localities. The States do not need loans because any plans they want to make, they can make.

Some coordination at the Federal level along that line, might be desirable. In what form, I am frankly not quite qualified to say at this time.

Representative BOLLING. But you do feel that the matter should be explored?

Mr. FREEMAN. That there should be economic advance planning. Economic advance planning, I believe, is justified. Exactly how far to go and how it could best be coordinated at the Federal level, frankly, I cannot say.

Representative BOLLING. Could I get comments from the other members of the panel on that?

Mr. MICICH. It was pinpointed down to a specific problem. Take an example in my home town. We have a part of the city that needs a storm sewer system put in at a cost of approximately $300,000. They put a housing development out there, and they did not take care of the storm water, the excessive water that would come from the watershed on the city limits. But for this $300,000, the property would have to form a sewer district, for example, and the valuation of the property there would have to be very terrific under the circumstances at this time to go before these people and ask them for a special assessment in their sewer district trying to get that storm sewer in, even though it is vitally needed, in view of the fact that there is unemployment.

So as an encouragement, if we could set up something here, such as Mr. Moses recommends, where these areas are like that, or if that sewer district would put up $150,000 of this $300,000, that would be an encouragement, and also help alleviate unemployment, if the Federal Government would step in under some such plan as that.

Representative BOLLING. Thank you.

Mr. ELLIOTT. I would like to point out to the members of the Economic Committee that a well-governed and well-administered community will plan its capital improvement program at least 4 or 5 years in advance. Now, it may be that all of these projects are not on the drafting board as far as drafting and detailed planning are concerned. But it does not take nearly as long to get that kind of work done as it does to finance a project and to get your public acceptance.

I tried to make it clear in my remarks that I did not think that the Federal Government should loan money to the communities, to the local communities for planning. I have seen so many of these projects that were placed on the drafting board back in 1947 and 1948 and now are absolutely worthless.

We have one fine example of it just outside of our own city. I think that if a project is worthy, the municipality, particularly the municipality, will see that the work is done, as the States do.

Representative BOLLING. I take it, then, that you would favor no Federal grants-in-aid to municipalities?

Mr. ELLIOTT. Not for that purpose; not for planning.

Representative BOLLING. What kind of grants-in-aid would you favor?

Mr. ELLIOTT. I would not consider favorably any grants-in-aid. I would consider a credit loan or an advance. If you want to take, we will say, these 5- and 6-year capital improvements, and the situation demands it, and build them all in one year—you are telescoping your program in one year—then I think it would be legitimate for the Federal Government to advance. But strings certainly have got to be put on that, that that loan, or credit, whatever it is, has got to be paid back.

In other words, I do not feel that any portion of the population should pay for some other community to spend on things that it would like. And a lot of times, when these things are placed on that kind of basis, they are really white elephants in the community.

Representative BOLLING. I take it, then, that you would carry that through except in the area, perhaps, where there is a clear and not spurious defense connection?

Mr. ELLIOTT. That is right.

Representative BOLLING. Airfields, and perhaps through highways, and so on.

Mr. ELLIOTT. That is right.

Representative BOLLING. But except in that area, you feel that the Federal Government should stay out completely.

Mr. FREEMAN. May I say that the 1944 act provided that these Federal advances were only repayable loans. The only reason they did not carry interest, if I remember right, was that certain municipalities could not accept a loan that carried interest because it would be subject to their debt limitation and a popular vote. Basically, I think if an advance is made, the intention of the law should be maintained that it is a repayable loan. Later on by administrative action, many of these loans were forgiven, and that is where, in my opinion, the mistake was made.

I agree with Mr. Elliott, that if the character of the repayable loan were maintained and it were enforced and made clear to the municipalities that any plan they make is at their own expense, I think we probably can arrive at a better solution.

Representative BOLLING. Do you have any comments, Mr. Manvel?

Mr. MANVEL. Merely, I think, to express some agreement with Mr. Mitchell's and Mr. Elliott's emphasis on the fact that financing and community acceptance are the principal delay problems of magnitude, rather than physical plans. One other little comment that I think bears on your question of a trigger program is this. Any such plan or program very desirably should be so designed or so considered that it might not in its consideration stages, or even after adoption, actually operate to delay or defer local action on improvements that they—the State or local governments—might otherwise make.

A city or State agency or official who went ahead with a project in the face of the prospect that if by waiting six months maybe he got more Federal aid, or something of the kind, could surely find himself unpopular, and I think this is a definite problem in thinking about any kind of trigger or contingent additional assistance plans.

Representative BOLLING. Obviously, there are a great many areas in this field where a need for coordination is apparent from what all of you gentlemen have said, a coordination and understanding at all levels of government. Would there be any disagreement with that?

(No response.)

Representative BOLLING. Thank you, Mr. Chairman.

Chairman WOLCOTT. I want to express the appreciation of the committee to the panel for being here this morning and making this very valuable contribution to our studies.

We have two letters in response to inquiries made by the staff, one from Mr. John M. Peirce, the Director of Finance of the State of California, and one from Hon. Frank P. Zeidler, mayor of Milwaukee, commenting upon this question. Without objection, their letters may be inserted in the record at this point.

(The letters referred to follow:)

STATE OF CALIFORNIA,
DEPARTMENT OF FINANCE,
Sacramento 14, February 3, 1954.

Mr. GROVER W. ENSLEY,
Staff Director, Joint Committee on the Economic Report,
United States Capitol, Washington, D. C.

DEAR MR. ENSLEY: In response to your recent telephone request to Mr. T. H. Mugford, we have prepared an inventory of the major public works requirements in the State of California, looking some distance into the future.

You will understand, I am sure, that time limitations prevented a complete survey of this subject. It has not been possible to obtain information on the plans of cities and counties; nor do our data cover the situation in special districts other than school districts. However, the material we have been able to summarize indicates the likelihood of a high level of expenditures for public works in this State over a period of more than a decade.

If you need additional information on this subject, or others relating to California, please let us know.

Very truly yours,

JOHN M. PEIRCE, *Director of Finance.*

PUBLIC WORKS CONSTRUCTION IN CALIFORNIA

The census of 1940 gave California a population of 6,907,000 and 10 years later the next Federal enumeration showed a total of 10,586,000 people in this State. The 3,679,000 gain recorded during the last decade was not only the greatest in the Nation, but also the largest in a century of the State's development which has shown a doubling of the population every 20 years. Growth is continuing at the rate of 500,000 per year, and its concentration in metropolitan centers serves to increase further the pressure upon State and local governments for a continued expansion of public works. These agencies have been spending $600 million annually to meet the most essential needs for schools, streets and highways, hospitals, sanitation systems, and the other facilities required by a rapidly growing area.

Even with this level of expenditures, the State as a whole has not been able to meet all the problems of growth on a current basis. The backlog of school construction for the next 6 years is estimated to exceed $2 billion. Highway needs for the next 15 years are computed at $3.4 billion. Among other long-range matters yet to be solved are provisions for rapid transit systems in metropolitan Los Angeles and San Francisco, more complete development of water resources, and the elimination of air pollution in concentrated industrial areas. Concern over these problems is not new, but their solutions are likely to command both increasing attention and a substantially greater outlay of funds during the next few years.

One of the outstanding general features of public works programs in the State has been the policy of financing these expenditures so far as possible from current revenues. Highway, street, and road construction has been entirely on a pay-as-you-go basis, without resort to toll roads or bond issues. This policy has also been followed in provision for institutional and other buildings constructed by the State government. The chief exceptions to this principle have been the local school structures, water supply, and sanitation projects, where recourse has been taken to debt creation and borrowing.

SCHOOL BUILDING NEEDS

Nearly 90 years were to pass between the establishing of the California Public school system and the recording of 1 million pupils in average attendance. The second million mark was reached within the course of another 16 years (1952–53), and the third million will be reached by 1960. This compounding progression illustrates the school-building problem which has confronted the people of California during recent years and will continue to confront them for some time in the future.

A study of school facilities undertaken jointly by the Federal and State Governments in 1952 showed that three-fourths of California's public school pupils were housed in fair or satisfactory facilities; one-fourth were attending in double sessions, over-crowded rooms, or substandard structures. The immediate expenditure need was estimated at $1,064,000,000 and the long-term need to 1960 at $2,500,000,000. Construction undertaken since the study was completed has reduced this total considerably, but growth has exceeded expectations, and the current estimate of the school building volume required before 1960 is approximately $2 billion. If this goal is to be met, it will be necessary to step up current outlays for school construction roughly 50 percent.

In 1960 many of the youngsters born during the early war years will be enrolling in colleges and universities and by 1965 the tidal wave of postwar children will be ready for their turn in these educational centers. Full-time enrollment at the 10 State colleges is expected to increase from 24,700 in the current year to 46,000 in 1960, and 62,600 in 1965. State college officials are urging a construction program of $190 million over the next dozen years in preparation for this demand upon their services.

Enrollment at the University of California is expected to increase from 33,000 currently to 76,000 in 1965 and the cost of improvements at the 8 campuses of this institution is estimated at $300 million.

STATE HIGHWAYS

The rapid increase in motor vehicle registrations has overburdened many of the public highways in California. According to an engineering study completed in 1953, the State must spend $3,416,000,000 on its highway system within the next 15 years, if current and developing deficiencies are to be remedied. Although an accelerated highway program designed to meet postwar needs was adopted in 1947, an increase of 70 percent in motor-vehicle registrations and a sharp drop in value of the construction dollar limited in the effectiveness of this action. More than $600 million has been expended for major highway construction in the 6 years since the 1947 program was started, but one-third of the mileage is still deficient in capacity or structure, and expenditures totaling $1,818,000,000 will be required to bring these roads up to modern traffic standards. In addition, expenditure requirements of $1,598,000,000 will be generated by traffic growth and highway use before 1968. As the 1953 study was limited to the State system, these figures do not include needed expenditures on county roads or city streets.

The 1953 session of the State leglislature adopted the policy of meeting this deficiency on a pay-as-you-go basis. Highway user taxes were increased approximately one-third for an initial 2-year period, after which these levies will drop back to a point 22 percent above the old rates. This action will provide an estimated $700 million in additional revenue over the next 10 years, bringing total construction money to $2,315 million for the period from 1953 to 1963. While this will not fulfill all the needs now visualized, it will allow the State to further accelerate its work on the most pressing highway problems and will assure a high level of construction activity throughout this decade.

Studies covering the feasibility of providing rapid transit systems are being made under sponsorship of local groups in the Los Angeles and San Francisco areas. Many questions remain to be decided, however, and there are no firm estimates of either the expenditures involved or the time required to bring the systems into operation, assuming approval by voters in these localities. The proposed southern crossing of San Francisco Bay is another large project of indeterminate status at the present time. Bonds have been issued in the amount of $1,500,000 to cover the cost of a 2-year study, and application has been made to the War Department for permission to build a bridge at the site selected, but permission has not been granted to date. Work on the detailed study is, therefore, in abeyance pending this decision.

WATER RESOURCES

The twin problems of water supply and flood control comprise another huge segment in California's backlog of public works. Few convictions are more firmly fixed in the minds of the people of this State than that its present prosperity and future development depend upon conservation of its water resources. History of the use of water in California starts with the Spanish missions in the final third of the 18th century. In over 180 years of development, the greatest strides have been made in the last quarter century, yet only one-third of the conservable runoff is presently used, leaving two-thirds still to be harnessed and utilized for water supply, flood control, and power generation. Foreseeable expenditures for these public works total more than $2,210 million.

The California water plan contemplates redistribution of the supply from areas of surplus to areas of deficiency. In 1951 the Water Resources Board described the water-conservation problem in the following words:

"* * * About two-thirds of the water is in the northern third of the State, whereas the greater demands—agricultural, industrial, and municipal—are in the central and southern portions. The solution of such a geographical problem must involve transportation and exchange of water, generally from the north to the south. It must include construction of surface storage reservoirs and utilization of the great ground water storage capacities of the valleys for regulating stream flow. * * * There must be increased development and transmission of hydroelectric power for project purposes and to help meet growing demands for electric energy. * * * In the Central Valley, conservation features will provide a substantial measure of salinity control. * * * Improvements in navigation * * * recreation, support of fish and wild life, and other beneficial uses. These, in broad outline, are the elements of the California water problem."

The Feather River project represents 60 percent of the $2.2 billion estimated cost of water development. It involves a large reservoir on the Feather River in north central California, power-generating facilities, and a network of conduits to the San Francisco Bay area and southern California, running as far as San Diego. Engineering feasibility of the development has already been determined and economic factors are now under study. The Water Project Authority has been authorized to issue revenue bonds to meet the cost of the project when its economic feasibility is proved.

OTHER PUBLIC WORKS

The foregoing pages summarize California's present needs and plans for new school buildings, college and university facilities, major highways and transportation arteries, and water supply. There are also needs and plans for hospitals, penal and correctional institutions, and governmental buildings of other types. Precise measures of these requirements are not available, but it is significant that State government alone has spent $411 million since 1946, in bringing its physical plant reasonably up to date. This total excludes highway construction, capital outlay for educational centers, and water development. The State has built a new mental hospital, substantially rebuilt two of the oldest institutions, made extensive additions and alterations at others, and has another new hospital under construction. It has provided two new prisons and has a third under construction. There are 3 new correctional schools and 2 reception centers nearing completion. More than $27 million has been allocated for State office buildings, either completed or under construction. The Federal, State, and county governments, together with private nonprofit agencies, have spent $150,260,000 on hospital construction since 1946. Forty-three additional hospital projects involving expenditures of $70,800,000 are now under construction, and plans call for $143 million more within the next 5 years. These totals do not include State mental hospitals completed or under construction, amounting to more than $100 million.

If California keeps abreast of its future needs, there should be mental hospital facilities for 11,400 additional patients within the next 6 years. There should be correctional facilities for at least 4,000 more adult prisoners and 800 younger delinquents. Although real progress has been made in centralizing State offices in State-owned structures, it will be necessary to add 225,000 square feet within the next 5 years and 550,000 square feet before 1963. If the State were to eliminate all rented quarters, these additional space requirements would be doubled.

SUMMARY

The backlog of public works in California for highways, educational facilities, and water conservation totals well over $8 billion. Much of this must be undertaken and completed within the next 6 years; part will be completed within the next 15 years; and part may stretch into an indeterminate period. In addition, the expenditure of several hundred million dollars will be necessary to handle the daily movement of people in the metropolitan areas of the State. Sanitation systems, hospitals and healt centers, park and recreational areas, and many other facilities of government must expand as population continues to grow. Efforts to meet even minimum needs will test both ingenuity of our people and the fiscal capacity of State and local governments. Far from needing a shelf of made-work projects, California will be hard pressed to keep abreast of the stream of events which have swept it forward through the first century of its history as a State.

OFFICE OF THE MAYOR,
Milwaukee, February 9, 1954.

Mr. GROVER W. ENSLEY,
Joint Committee on the Economic Report,
Room G-14 The Capitol, Washington 25, D. C.

DEAR MR. ENSLEY: Mr. Randy Haskell Hamilton, director of the Washington office of the American Municipal Association has forwarded your invitation for me to present my analysis and recommendations for consideration of the Joint Committee on the Economic Report.

The problem of the cost of vehicular travel as it affects the city and the problem of State and Federal aids, their related taxes and the proportion of taxes which are returned to urban communities have been of particular concern to me recently

A short time ago we estimated that the citizens of Milwaukee had contributed $7,033,000 in gasoline and other automobile taxes to the Federal Government during 1952. Our returns from this amount were but $1,250,000 or about 18 percent. Certainly a more equitable formula for return of automobile and gas taxes to urban communities can be devised.

So disproportionate has the return of vehicle taxes become that in Wisconsin our secondary roads which are required to carry but 25 cars per day to qualify for the best type of pavement benefit at the expense of city streets now carrying averages of 30,000 cars per day with peak loads as high as 40,000 cars per day.

Enclosed herewith is a compilation of budget expenditures for Milwaukee for the year 1952 which can be directly attributed to the motor vehicle. A list of receipts from State and Federal aids is also included. Comparison of these two lists shows:

(1) Taxpayers of Milwaukee contributed $11,411,693 to the city's budget for items such as street construction and repair, traffic control, bridges, snow removal, courts, crossing guards and other items whose cost can be essentially attributed to modern vehicular travel. This amounted to 25 percent of our combined budget for permanent improvements and general city funds for that year.

(2) In addition to the above amount, those city taxpayers who operated motor vehicles contributed an additional $18,625,000 for State and Federal gas and auto taxes.

(3) The combined expenses total $30,036,693 which represents the contribution made by people of this city in an effort to vitalize the State's hub of commerce.

(4) In return the people of the city received $5,179,262 in State and Federal aid. This includes a return to the city of 33.9 percent of the taxes contributed to the State by people of this city.

(a) It includes a return of only 27.7 percent of State and Federal taxes contributed.

(b) It includes a return of only 18 percent of the Federal taxes contributed.

It is my opinion that urban roads at the points of greatest vehicular concentration will continue to lag dangerously behind the needs of any metropolitan area until a means of returning a greater share of vehicle levies to the contributing city is devised. Needless to say this strangulation of communications is one of the most serious facing the cities and the Nation and it will have a serious detrimental effect on all local communities economy and upon that of the surrounding States.

A second item of major concern at this time is the school problem. School administration has traditionally been a matter of local concern. It is our belief that it should continue to be a matter of local concern. However, we consider that there is a place for Federal aid in construction to meet even the so-called normal school building requirements. This role would be similar to the place that Federal aid found in the construction of locally administered and controlled hospitals under the Hill-Burton Act. We believe that a Federal school construction aid program should be established so as to relieve localities of part of the heavy burden of new school construction, both defense-connected and otherwise. Increased enrollments will require a school construction program of $40 million during the next 5 years in the city of Milwaukee.

To assist the American cities in a solution to the above problems I recommend an economic assistance program for American cities.

The Federal Government is presently spending in excess of approximately $6 billion per year for economic aid to foreign countries as a part of the national defense effort. The need for such aids has been and will continue to diminish as the economies of the foreign countries become more self-sufficient. This aid program has come to represent an important part of our national economy, and a similar level of expenditure by the Federal Government may be required if national economic activity is not to suffer a heavy blow. We recommend that an economic assistance program for cities be instituted. This plan should envisage the expenditure of an amount of money equal to perhaps two-thirds the level of present foreign economic aid. This level would be built up gradually as the need for foreign aid diminishes so that the total expense both for foreign and domestic assistance would at all times remain comparatively constant. We further recommend that these aids be made on the traditional American system of grants-in-aid ties to specific programs. This basis is a sound one since it assures local participation and interest in the program. We do not here recommend the specific program into which this aid should be channeled. The exact direction of expenditures should perhaps be changed from time to time as the needs of the Nation and its cities change

In emphasizing the previous problems I do not intend to minimize other items such as urban redevelopment and civil defense. The United States is an urban country. Almost 60 percent of our people live in urban areas, but our cities are afflicted with blight and decay, choked with traffic, and lacking in financial resources to meet their problems. They lie helplessly exposed to the dangers of military attack. Direct Federal assistance in the fields we have outlined offers cities the most practical means for dealing with their staggering internal problems. We urge that serious consideration be given to these matters since they affect the lifeblood necessary for the municipalities' and therefore the Nation's existence.

Yours truly,

FRANK P. ZEIDLER, *Mayor.*

City of Milwaukee, Wis.—Partial list of expenditures directly involving motor vehicles, 1952

From permanent improvement funds:		
Street construction	$1,880,540	
Bridge construction	1,000,000	
Traffic control	193,709	
Parking	197,202	
Street openings	521,461	
Total—Permanent improvements		$3,792,912
From operating budget:		
Bureau of Street Construction	$1,684,538	
Parking Commission	100	
School crossing guards	67,827	
Bureau of Street Sanitation:		
Snow removal	450,000	
Special cleaning	10,000	
Barricades	3,000	
Unimproved roads	2,000	
Special street paving	3,000	
Minor street repairs	1,000	
Painting barricades	3,000	
Cleaning streets and alleys	500,000	
Traffic engineering:		
General office	92,849	
Traffic control	282,132	
Street cuts	3,500	
Police: Traffic control	3,000,000	
Traffic courts	15,835	
Municipal Equipment Bureau	1,500,000	
Total—Operating budget		7,618,781
Total for 1952		11,411,693

City of Milwaukee, Wis.—Auto tax contributions and aids—1952

Total, State gas and registration receipts	$64,400,000
City of Milwaukee contribution—18 percent	[1] 11,592,000

[1] This figure is regarded as a conservative estimate owing to method of accounting for sales by districts.

Total Federal receipts—gas and other auto taxes, city of Milwaukee share	7,033,000
Total, State and Federal taxes contributed by Milwaukee city	18,625,000

City of Milwaukee, Wis.—Partial list of expenditures directly involving motor vehicles, 1952—Continued

Aids received:	
State:	
Maintenance allotment	1,812,128
Highway privilege	867,134
Construction	1,250,000
Total State (33.9 percent)	3,929,262
Federal (18 percent)	1,250,000
Total, State and Federal aid (27.7 percent)	5,179,262

Chairman WOLCOTT. Tomorrow we will meet in this chamber to consider the question of the agricultural outlook and implications for Federal economic policy.

Without objection, the committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:20 p. m., Wednesday, February 10, 1954, the committee recessed, to reconvene at 10 a. m., Thursday, February 11, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 11, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:20 a. m., in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representatives Wolcott, Talle, Patman, and Bolling.

Also present: Senator George D. Aiken (of Vermont); Grover W. Ensley, staff director; John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We have this morning a panel of authorities and experts on the agricultural outlook and the implications for Federal economic policy.

We have Mr. Galbraith, of Harvard University; Mr. Bean, economic consultant here in Washington; Mr. Norton, professor of agricultural economics, University of Illinois; Mr. Clyde Mitchell, chairman of the department of agricultural economics, University of Nebraska; Mr. Witt, professor of agricultural economics, Michigan State College; and on the general question we have Mr. Oris Wells, Administrator of the Agricultural Marketing Service, Department of Agriculture.

If it is agreeable to the committee, we will follow the usual procedure in allowing the panel members to proceed with their statements without interruption, expecting, of course, that we may ask questions of them, and the panelists, I am sure, might want to ask questions of each other. In that way, we will develop the thinking.

I am very glad to have you all with us this morning, and I am sure you will make a very valuable contribution to our study of this subject.

Mr. Galbraith, would you care to proceed at this time?

STATEMENT OF JOHN KENNETH GALBRAITH, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. GALBRAITH. Mr. Chairman, I have submitted a statement for the use of the committee and for the record. If the committee so chooses, and since the staff director was rather firm on the 10-minute rule, I will not attempt to read that statement but merely to summarize a few of the facts that are in it.

Chairman WOLCOTT. I might say, Dr. Galbraith, that that is flexible within reason.

Mr. GALBRAITH. I am not criticizing the 10-minute rule. On the contrary, I think it is very valuable. I am only saying that the pain and suffering of a college professor under such a rule is perhaps second only to that of a Congressman.

Chairman WOLCOTT. That would be bad. We appreciate that.

Mr. TALLE. Mr. Chairman, maybe it is appropriate to say that in the House we operate under the 5-minute rule.

Chairman WOLCOTT. We are allowed to extend it sometimes.

Mr. GALBRAITH. Mr. Chairman, you have asked me to speak on the question of the relation of the farm income to general economic stability—to the stability of the economy at large. This is a timely question. I have drawn attention in my paper to the reasonably sharp reduction in farm income and net farm income last year, and I have pointed out that this appears to be the continuance of a long-term trend, which began perhaps as early as 1947, and which was rather briefly interrupted by the Korean war.

The 7½ per cent reduction in net income which we had last year, we should bear in mind, was a great deal less than what we would have had in the absence of the price support program. The able economists who advise the President on these matters are very critical of the rigid support prices. The support prices, however, have saved them from a much more serious problem, namely, the extremely sharp reduction in farm income which would have occurred in the absence of support prices. Concern with the surpluses that have piled up under the support program should not blind anyone to the very serious misfortune that we would have had in the past year and a half in the absence of those supports.

The relation of a decline in farm income, such as we have had in the past year, and the greater one we would have had in the absence of supports, to the general stability of the economy has been much discussed. I think it is fair to say that a certain amount of romance and good deal of politics have come into the answers. There are two extreme positions which I think reasonable men can reject. There is, first, the argument that farm income is all important, that it is more important than any other distributive share, and that a decline in farm income immediately brings down national income, and an increase in farm income immediately brings an increase in national income. And there is even a statistical formulation of the proposition which holds that the ratio is 1 to 7—a 1 percent decline in farm income will bring a 7 per cent decline in national income and vice versa.

So far as I know, Mr. Chairman, there is nothing to support this particular doctrine except possibly the votes of farmers at election time. I think that its foundations are purely imaginary.

On the other hand, there is the position which asserts that movements in farm income are of no importance. To use some newly fashionable terminology, they are all part of a rolling adjustment or a sidewise movement.

(I think it is evident, parenthetically, that if we have another depression, it will not be called a depression but a rolling adjustment. That is in a great American tradition. We change the names of these things every time we encounter them.)

I would reject that position immediately. The decline in income of any substantial group in the economy is important, and it has multiplier effects which can be and often are serious. Last year, while net farm income fell 7½ per cent, purchases of equipment, implements and farm machinery fell by the order of 16 and 17 per cent. This is an indication of the multiplier effect of which I am speaking. And gross farm investment, investment of all sorts, fell about 10 per cent, again by a greater proportion than the fall in farm income.

The reasonable position is that farm income is no more important or no less important than the income of any large group in the country. We cannot view with equanimity a large reduction in income of any group. Multiplier effects may spread, and may be very harmful to the economy as a whole.

We should have a special concern for farm income but it grows out of the fact that, in past years, farm income has been subject to larger swings and has been more erratic than income of other groups.

Now, Mr. Chairman, in the two or three minutes that I have remaining, let me say a word about the policy implications of this. I do not know whether we are going to have a depression or not. I do not think that anyone else does for sure. The only thing of which I am reasonably certain is that there are a lot of people in the country who do not know that they do not know. But there is one thing of which we can be reasonably certain. The economy in recent months has been showing weakness.

Now, that is a fact. Under these circumstances, we should minimize risk of unsettling or disturbing the course of economic events further. This would certainly seem to be the course of prudence and wisdom.

Accordingly, I would feel very doubtful about farm legislation which had the effect of causing a further reduction in farm income or allowing a further reduction in farm income. I am more than sympathetic to legislative proposals which strengthen the present floors under farm income. They seem to me to be measures that are important both from the point of view of the farmer and from the point of view of the economy as a whole.

The Congress now has before it a set of legislative proposals on agriculture, of which there will be further discussion this morning. Let me say that I do not believe these proposals improve significantly on the legislation which now exists. It seems to me that the so-called flexible supports really involve a very slight departure from the present program.

You will observe that the President in his message on agriculture and his advisers in the Economic Report lay great stress on the fact that the new program will continue the principle of high, secure supports for the farmer. This is emphasized strongly; and that the President and the Secretary mean what they say. This is evidenced by the recommendation that the revised parity come in effect gradually; and the proposal of a set-aside of existing stocks to keep the sliding scale from operating to reduce too sharply the present level of supports.

Now, Mr. Chairman, if it is the intention to continue the support principle at a favorable level, then the hope that this legislation will have the effect of curtailing surpluses is a false hope. If the support prices are satisfactory to the farmer, as the President and the Secretary have promised, then they are going to be sufficiently satisfactory to cause the farmer to maintain his production.

Therefore, the further hopes which are expressed in the agricultural message and in this report that the new legislation will bring a prompt and effective curtailment of production and will cure the surplus problem, are false hopes. In fact, the reductions in prices that would be involved in staples under the new program are relatively small. Except for wheat I would doubt very much if the effect on production would be at all significant.

That being the case, we have, Mr. Chairman, no very substantial flexibility in this new program. It is evident that this word 'flexible" has captured the attention of a lot of people who have not inquired into its content. Meanwhile we do have some further reduction in income and we do have a continuation of some very serious faults in the present program.

The most serious of those faults is the discrimination between the producers of basic commodities and the producers of perishables. This is a discrimination which is not justifiable and should the economy show further signs of weakness, the continuation of this discrimination—the failure to accord reasonable and conservative supports to the prices of perishables—will be a source of general economic weakness.

In my statement I have commented on what seems to me are some of the courses of action. But I have used up my 10 minutes, and with your permission I will give way to my colleagues here.

Chairman WOLCOTT. Thank you, Mr. Galbraith. Of course, it is understood that the whole statement will go into the record in its entirety.

I might suggest at this time, that the members of the panel will have an opportunity to revise and expand their remarks in any respect, for the record, following this.

(The prepared statement submitted by Mr. Galbraith follows:)

STATEMENT OF JOHN KENNETH GALBRAITH, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, ON FARM INCOME AND ECONOMIC STABILITY

Mr. Chairman, members of the committee, you have invited me to speak on the relation between farm income and the level of economic activity and on the role of farm policy in a more general antidepression strategy.

The question is a timely one. During the past year we have had a substantial decline in farm income. Net returns to farmers last year totaled $12.5 billion compared with $13.5 billion in 1952, a reduction of about 7½ percent. (Returns in both of these years were well below the postwar peak of $16.8 billion which was reached in 1947 and appear to reflect the resumption of a downward trend which was interrupted briefly by the Korean war.) It should be emphasized that the reduction in farm prices and income last year would have been very much greater had it not been for price supports and the operations of the Commodity Credit Corporation. These latter operations, which increased the direct holdings and commitments of the CCC by about three billions during the 12 months, prevented, without question, a farm price decline of major magnitude. Let me say here, parenthetically, that this is a matter which seems not sufficiently to have impressed the able economic advisers of the President whose report we are here discussing. They recur frequently in the report to the unhappy consequences of "high and rigid" supports and in particular to the large surpluses which these are accumulating. They do not discuss the serious drop in farm prices and incomes which these supports forestalled. I venture to suggest that had this drop in farm prices occurred—and it would have occurred in the absence of the supports—it would have been a major preoccupation of the report. In economics, as in other matters, our misfortunes should not blind us to our blessings.

The causes of last year's slump in farm income—and the further weakness that was offset by CCC purchases and loans—are fairly clear. It was not appreciably the result of a fall in domestic demand for farm products. By far the most important cause was a sharp decline in export demand. This was especially serious for wheat, cotton, and other export staples. One must also assume that this reduction is in some measure permanent. It probably marks the end of the abnormal war and reconstruction requirements which American farmers were called upon to meet.

While the drop in exports—by about a third in the 1 year of 1953—was by far the most serious source of weakness, there were other contributing causes. We had a large crop last year, and a cyclically large supply of beef cattle. There was also an acceleration of cattle marketing as the result of drought. Unlike the loss of exports, however, these further influences can probably be considered temporary or episodic rather than continuing sources of price weakness.

Let me now turn to the effect of reduced farm income on the economy at large. We can dismiss two extreme positions which owe their existence to politics, romance, or both. There is the notion that farm income has a unique relationship to general well-being—that it is more important than income to any other group. In this view, national income rises and falls with farm income. There is even a statistical formulation of this proposition—you have all heard it argued that a given increase in farm income brings a sevenfold increase in national income and that a given decrease in farm income brings a sevenfold decrease in national income. There is nothing to support this doctrine—except conceivably the votes of farmers at election time—and it is contradicted by the experience of recent years. In several years since the war farm income has declined moderately while national income has risen.

At the other extreme there is the argument that changes in farm income are of no especial significance. To use some newly fashionable terminology, it is only the sort of thing that happens in a "rolling adjustment" or a "sideways movement." Accordingly, the recent (or any) reductions in farm income can be viewed with equanimity so far as the economy is concerned.

The truth, I suggest, does not lie between these extremes but in a different direction. The income of farmers is not more important for the economy as a whole than the income of any comparable group of producers except—but let me underscore this exception—as farm prices and farm income are more volatile and hence more vulnerable to sudden change than returns to other groups. We should be concerned about the larger economic effects of a significant decline in the income of any group. Such a decline reduces purchases of consumers' and producers' goods. Unless offset by growth elsewhere, it has an exaggerated or multiplier effect on production, employment, and income in supplying industries. As I say, this is the general effect of an income slump in any industry. The effects of the recent reduction in income and employment in the automobile industry are not different in consequence from the recent troubles of the cattle industry. We should be concerned about both. Agriculture is a special problem only because its swings in income have for a long time tended to be particularly wide and severe.

It follows that a further drop in farm income—like a further increase in unemployment—is something which this committee, the Congress, and the administration should view with concern. During the past year purchases of farm machinery and equipment decline by 17 percent—or by rather more than twice the percntage decline in net farm income—and total investment in buildings, vehicles, and machinery declined by 11 percent.[1] These are the multiplier effect of which I spoke. Further declines in farm income, if they occur, will bring further and proportionately larger reductions in such outlays with further and less favorable effects on the economy at large.

In addition there will be a marked threat to the living standards and solvency of farmers themselves. The committee should be careful, in this connection, about relying on averages and the average effects of reduced farm income. In the present condition of agriculture averages are especially misleading. Many farmers who have owned their farms for a long while have paid off their debts and have money in the bank or in bonds. They can doubtless stand a further drop in income—not with pleasure but without disaster. But something like one-fifth of our farms have changed hands since World War II. They were bought and equipped at high postwar prices. Equities are thin. For many of these new owners, a lot of them veterans, a further drop in income would be disastrous.

I do not know whether we are going to have a serious depression or not. Neither, for sure, does anyone else. The only certain thing in fact is that currently there are a lot of people who do not know that they do not know. But the economy has slipped enough in the last few months, as the indicators very

[1] Economic Report of the President, January 1954, p. 44.

generally suggest, so that it is a matter of ordinary caution and commonsense to act as though we might have a further decline in investment and income and in prices and employment. Such a depression would reduce farm income further; further reduction in farm income would make such a depression worse. Sensible and sound policy requires, accordingly, that anything possible be done to arrest any further reduction in farm income.

Neither the present farm legislation nor the return to the Agricultural Act of 1949, as recently recommended by the President, will insure the stabilization of farm income in a satisfactory way. I shall say a word, first, about the President's proposals, for these have been least well understood. They have been acclaimed for introducing a much-needed flexibility into the farm program and heralding the end of large-scale accumulation of surpluses. All this, I fear, is over-sanguine. The new program continues virtually all of the shortcomings of the present one, which in fact is closely resembles, with the added defect that it unsettles somewhat further the farm income prospects.

The proposed program, as you are aware, adopts the sliding scale for determining the level of support of the basic commodities and proposes the substitution of a modernized for the present parity formula. The effect of these two steps is to lower the level of support for certain of the basic commodities, with the prospect of some further reductions should carryover be large in the future.

The aim of this legislation is to use the force of low prices to reduce production and market supply and thereby avoid surplus accumulation. To quote the report we are here discussing, lower supports will "encourage needed and effective adjustments of production to current demand and carryover, discourage the building up of burdensome surpluses, and reduce the frequency and extent of acreage restrictions." [2]

The new program does not, however, abandon the principle of price supports at generous levels. On the contrary, the administration has been careful to insist that this principle will be continued. In his message on agriculture, the President declared that "Government price supports must * * * be provided in order to bring needed stability to farm income and farm production," and he added that "there should be no wide year-to-year fluctuations in the level of support." The Economic Report affirms even more baldly that the proposed program "would continue the principle of assuring farmers a high degree of price certainty and price stability." [3] The proposals themselves show that the administration is serious on this point. To insure that there will be no large immediate drop in supports under the sliding scale, the President has proposed that the present stocks of wheat and cotton be thought of not as real but as a reserve, and to the same end he has recommended that the new parity, where lower, become effective by stages.

Thus we have promises that the proposed program will not materially reduce prices. Yet it is also designed to reduce prices and choke off surpluses before they are born. Farmers are promised that prices will continue to have support at favorable levels. But prices are also to be low enough to discourage production. Now, many things are possible in economics, but we cannot have opposite and mutually inconsistent occurrences at the same time. Either price supports will be favorable to farmers, and farmers will produce in response to these prices, or supports will be unfavorable—sufficiently unfavorable—and farmers will reduce production. Prices cannot, as the administration proposes, be high enough to "bring * * * stability" to farm income and at the same time be low enough to "discourage the building up of surpluses." Such contradictions are unfortunate.

In fact, under the proposed legislation, we should expect a modest reduction in the price supports of the major basics. It follows that if markets generally are soft, there will be an equivalent reduction in farm prices and incomes. However, these price reductions—perhaps 30 to 40 cents down from the present average loan value of $2.20 for wheat, 10 cents down from $1.60 for corn, no appreciable change for cotton—would have a negligible effect on production. Supply responses to price changes of this magnitude are very small in agriculture, and this is especially the case when, as now, prices of alternative or competitive lines of production are also low. The Secretary of Agriculture and the President were poorly advised when they suggested that these proposed price reductions would work an important cure of the surplus problem. Other things, including

[2] Ibid., p. 94.
[3] Ibid., p. 94.

the weather, equal, surpluses will be as likely under the new program as the present one, and controls will have to be invoked as frequently as now. Those who have been captured by the magic word "flexible" in connection with the President's proposals should reflect well on these facts.

In suggesting that the new program involves no appreciable reform, I do not wish to seem to endorse the legislation we now have. It has serious shortcomings. It would do a slightly better job of stabilizing income of producers of basic commodities should we head into a depression than the President's proposals. But it would not effectively stabilize returns to producers of perishable products. This is important as an antidepression measure. It is also important as a matter of common fairness. There is no equitable defense of the present discrimination between producers of storable products, who receive support, and the producers of perishables who, generally speaking, do not. (At present over half of all farm production by value receives no support and for reasons that rest not on logic but mostly on whether the product will keep.) Corn, a cost to many farmers, is supported, while the meat and poultry products produced from the corn are not supported.

The present method of supporting prices also tends to price us out of export markets. Even when higher domestic prices are compensated for by subsidies, the record shows, we have a tendency to lose ground abroad. It requires also exaggerated use of tariffs and quotas to control imports. This method also upsets competitive relationships between domestic products. The years from 1945 to 1955 will be known in agricultural history as those in which the dairy industry committed slow suicide by allowing and even encouraging the Government to price butter far above the level of cheap and closely competitive vegetable fats. Finally we have the problem of what to do with the surpluses which are piled up by the present program.

These are the faults of the present program. Unfortunately, none of them is corrected by the new legislation. It continues all of these faults—the discrimination between perishables and storables, the upsetting of foreign and domestic price relationships, the overpricing of products in relation to close substitutes, and the continued acquisition of surpluses. It is evident, therefore, that we haven't yet hit upon the path of progress. The administration program which would somewhat reduce farm prices and income for no appreciable improvement in the farm program as a whole should not be accepted.

This does not mean that we should stand still with what we have. We should address ourselves step-by-step to correction of the basic faults of the present legislation. This should not be with a view to producing a grand plan that will outmode all existing legislation. One thing we have learned this past year is that farm legislation is not written that way. After hearing repeated promises of a brilliant new farm plan in the end we got legislation that was already on the books. Henceforth we should build on what we have. Let me offer not a detailed bill of particulars, but a few illustrations of what I have in mind.

As a first step, the present discrimination between storable and perishable products should be removed. This requires the development of a workable plan for guaranteeing minimum prices and returns to producers of the important perishable products. We may recall, incidentally, that this step was promised by both parties during the last election campaign. Such price and income protection for producers of perishables is, to repeat, important to our antidepression strategy.

A new system of supporting the incomes of dairy producers must also be devised. The present system is not merely postponing a day of reckoning. By sacrificing, perhaps for good, the market for butterfat it is accumulating not alleviating trouble for the dairy producer.

These two proposals come to the same result. There has been much talk of finding a "practical plan" for supporting perishables by farm leaders of both parties. As a practical matter there is only one way of doing it that does not accumulate costly surpluses. That is to allow prices to find their own level in the market, and where these fall below a fair but conservative return, to make up the difference directly by production payments. This is not politically very palatable. Although it is a procedure which we used in the thirties, it was also one of the characteristics of the so-called Brannan plan and came in for heavy criticism when offered in 1949. I am suggesting it now, not to rattle the bones of old controversy—there were aspects of the Brannan plan which I opposed—but because production payments are indispensable in our farm program. They are the only device by which we can accord price and income protection to producers of perishable products. We don't have a choice here, there is no marvelous new plan waiting to be invented. Except by production payments—and short of unpegging the whole dairy price structure—there is no other way of handling the present dairy situation which will keep the Government out of the market, avoid large surpluses, and not price the Midwest dairyman out of his market—perhaps for good.

Because of this history of political controversy, the use of production payments should be extended gradually. The administration is to be commended for suggesting that they be tried for wool. As will be clear from my comments, it is even more urgent for butter. As and when farmers find it a sensible device, it should be extended to other products and especially to feeds. Let me emphasize that this is not a subsidy to be paid year in and year out. Rather it is a way of setting a floor under the farmers' prices and incomes. In depression they will be much needed. If we can avoid depression, as we hope, then prices should be well above such floors.

Our wheat and cotton capacity—the former greatly expanded during the war—are now well beyond domestic requirements. For these two crops there will be no permanent solution until we readjust our plant somewhat nearer to domestic requirements. In the Western Great Plains we need energetic efforts to return less productive wheat acreages to grassland, and the Government should provide specific monetary encouragement to this conversion. In the South we need continuation of the progress toward better balanced farming. Both of these steps will aline production with eventual nutritional requirements. In the South, especially, there is every hope that improving diets will match the increase in livestock and livestock products. A better form of price or income protection for livestock products—one that is consistent with expanding consumption—will encourage this trend.

This is a long-run solution, however. For the short-run we shall have to continue controls for wheat and cotton. Production payments instead of price supports would strengthen the competitive position of cotton with other fibers and enable more wheat to move as feed. For these crops, also, the adoption of modernized parity would bring prices into line with livestock products. However, given peace and good yields, controls will be necessary on these crops for some years and under any program.

One could go on. However, I have perhaps said enough to suggest the lines of reform. The shortcoming of the present program is not that it supports farm incomes at too high a level. On the contrary, it would be most unwise, at this time, to reduce the farmer's price and income protection. We need instead to extend that protection, in a suitably conservative form, to the products which are not now covered. Then, if depression deepens, the farmer will be protected from severe misfortune and the economy will have the benefit of a general floor under farm income and expenditure. However, to accomplish this we need a new and better method of supporting farm prices and income. It is too bad that the present debate—once the persiflage about rigid and flexible supports is stripped away—is essentially over the level of supports for storable products—the present level versus a moderate reduction. No proposals are effectively before the Congress which deal with the far more important problem of improving the method of support.

Chairman WOLCOTT. I would like to have you proceed, Mr. Bean.

STATEMENT OF LOUIS H. BEAN, ECONOMIC CONSULTANT, WASHINGTON, D. C.

Mr. BEAN. Having studied the President's agricultural commodity proposals and listened to the official explanations presented to this committee and to the Senate Committee on agriculture, may I give you some general observations, based in part on a fairly long association with factual material bearing on agricultural production, consumption, and exports. I regret that I cannot find in the proposals to lower the parity prices of basic commodities, to adopt flexible price supports and to move a very small amount of our surpluses as additions to normal exports, the basis for the stated hopes that inspire them. These are some of my conclusions:

1. Flexible prices and a lower, modernized parity level do not without additional measures guarantee the hoped for reduction in acreage or production, nor greater consumption and exports.

The proposal to use $333 million per year for 3 years (equivalent to 1 percent of our annual output) to move our surplus stocks to needy people abroad is worthwhile but extremely inadequate both in relation to the surpluses or to the number of hungry people abroad.

3. Lowering the parity prices for basic commodities and support levels with no prospect for increased consumption cannot bring agriculture a standard of living comparable with that of the nonfarm population, the objective stated in the various agricultural acts.

With huge stocks of wheat, corn, and cotton here and abroad likely to press prices downward for some time to come unless relieved by unfavorable weather conditions, the lowering of the present parity level of these commodities and supporting them at 75 to 90 percent of the modernized parity cannot possibly sustain the present already reduced level of farm income.

INEFFECTIVENESS OF PROPOSALS ILLUSTRATED WITH WHEAT AS AN EXAMPLE

You have been told that the present level of support prices is too high, that lower prices will reduce production by decreasing acreage and that they will also increase the volume of exports. These promises or hopes cannot possibly be realized in any substantial way by means of flexible prices. They may be partially realized in some commodities—most likely at the expense of other commodities—but they can hardly be realized in the case of wheat or corn and, I would say with some qualifications, not even in the case of cotton. Let me illustrate these blunt observations by taking wheat as the outstanding example. It is the ideal case for demonstrating the shortcomings of the President's proposals to flex farm prices downward over the next 3 or 4 years in order to bring down the accumulated surpluses, to readjust farm production, and to give producers parity income.

Congress or the Secretary of Agriculture may call for a reduction in wheat acreage by lowering wheat prices, and they may also call—to quote a famous phrase—"the spirits from the vasty deep." In neither case would they be certain of what would happen. The plantings of wheat are determined by many factors other than price for there are many varieties and many combinations in farm production. Lower prices under certain circumstances actually bring increases in acreage. For example, total acreage increased in the face of the sharply declining prices of 1929–32. In that price depression period wheat acreage was not reduced. There is a gross misconception therefore in thinking that the lowering and raising of the price of wheat or corn or many other farm products will produce the wished-for acreage or volume of production.

There is an even grosser misconception in the promise that flexing the price of wheat will increase domestic consumption. The President's Economic Report tells you that the domestic consumption of wheat is now the same as it was 50 years ago. Some may infer from this that consumption has been held down by the present support level for wheat. What it should tell you is that for over 50 years our per capita consumption of wheat has been declining as population has been increasing, producing one of the most amazing items of stability in the wide range of farm economics, namely, an annual food consumption of wheat and flour that remains practically unchanged at about 500 million bushels. The farm price of wheat has risen as high as $3 and fallen as low as $0.30 a bushel without affecting this practically constant total of food wheat consumption. It is only if wheat prices drop very low or strike the competitive level of corn that consumption of wheat for feed, not food, may be increased by perhaps 100 million bushels, at the expense, of course, of other feeds.

Why doesn't wheat consumption respond to lower wheat prices? Here is one simple answer. A 20-cent loaf of bread contains about 3 cents worth of wheat. If the price of wheat is flexed down by 35 cents per bushel or, say, 15 percent, the value of wheat in the loaf decreases only by about four-tenths of a cent. The baker cannot cut the price of bread by four-tenths of a cent and charge 19.6 cents, and even if he could no consumer would eat more. But the effect on farm income is serious. The wheat farmers, on a billion bushel crop, would lose about $350 million, or the equivalent of 100,000 wage-earner jobs at $3,500 per year in factories producing machinery, automobiles, clothing, and other goods for the farm market. Incidentally, the same may be said for cotton. Cotton goods also fail to respond to lower prices unless they are extremely low. Say a cotton shirt sells for $3, having 15 percent or 45 cents worth of raw cotton in it. Dropping the price of cotton 5 cents per pound, or 15 percent, would lower the price of a shirt by only 7 cents. No more shirts would be sold, but the cotton-grower would lose $350 million in gross cash income and the equivalent of 100,000 jobs in industries producing machinery and other industrial products for farmers would be jeopardized or lowered.

Flexible wheat prices have about the same impotence in stimulating exports. Ever since the 1890's, leaving out the two world war periods, our opportunities to export wheat have come with small crops abroad. In these instances we sold more for higher prices, not for lower prices. In other years our surplus production in export has brought disproportionately lower prices and lower farm income. The basic fact about our wheat exports is that as world production and world trade exclusive of the United States expands, our wheat export trend declines. That is the basic reason for our inability this year to export more than about 200 million bushels even though we are subsidizing a large part of the total under the International Wheat Agreement. To let our vast store of wheat compete in the world markets with the equally huge store of Canadian wheat would create all kinds of economic and political troubles here and elsewhere.

These are the realities in wheat for which the President's proposals are most inadequate. They typify similar realities in cotton and corn but with noticeable differences. They suggest that before you propose adopting a common formula for all basic commodities you should have made available to you the available competent analyses of the effects of flexible prices on production, consumption, exports, and farm income. You have been advised that the impartial work of many committees over many months preceded the formulation of the President's Farm Program. These studies embody the results of years of statistical analyses and of programs in effect under varying conditions. They should be available for your and general perusal.

STABILITY IN TOTAL PER CAPITA FOOD CONSUMPTION, REGARDLESS OF GENERAL LEVEL OF FOOD PRICES

I have pointed out that food wheat consumption for the country as a whole is practically invariable, regardless of price. As a matter of fact, practically the same conclusion holds for the per capita consumption of all foods combined. Year in, year out, the national average of food consumed in the United States is about 1,500 pounds per capita. In terms of calories we consumed 3,530 per capita per day in 1909, 3,470 in 1929, 3,350 in 1939 and 3,240 in 1952. What this means is that as a free market of 160 million consumers we absorb about the same quantity of food year in, year out, and if we consume more of one product as a result of price inducement we tend to reduce the intake of some other commodity. In other words, if you expect that lowering the general level of farm prices from 90 percent of parity to 75 percent will raise total consumption, you will be greatly disappointed. You may in fact see the opposite as in the 1930's and 1940's. Between 1929 and 1932, per capita food consumption declined about 5 percent as prices went down—and city jobs disappeared. During the early 1940's, per capita food consumption increased 7 percent during a period of rising food prices.

SPECIAL PROGRAMS FOR INCREASING CONSUMPTION BY LOW INCOME FAMILIES

Total consumption of farm products can be raised further but that would take more extensive efforts to raise the consumption level of the undernourished and poorly clothed than are now being proposed. The opportunity lies in the low income brackets. After 150 years of industrial progress with tremendous creation of wealth, 20 percent of our working population still gets only 2 or 3 percent of the national income. There are opportunities for more consumption in this low income group.

LONG TIME DECLINE IN FARMERS SHARE OF TOTAL EXPORTS

I have already touched on the limited opportunities in commercial exports for wheat. The prospects vary, of course, commodity by commodity. But the general trend of total exports of farm exports depends on the national income which in turn determines the volume of imports which in turn is basic to the number of dollars foreign countries can use in buying our products. The agricultural share in our total exports has pursued a longtime downward trend. It is now down to about 20 percent compared to 80 percent in the 1880's.

This trend is not likely to be reversed noticeably as a result of the current efforts of missions to find customers in the regular channels of commerce. The opportunities abroad for greater consumption of our farm products, just as at home, are with the underfed in the lower 3rd or lower 20 percent of populations everywhere, and of course particularly in the poverty areas of the Pacific and the Far East. There inequalities in the distribution of income are much more pronounced than in the United States.

GRANTS OF SURPLUS FOOD TO LOW INCOME COUNTRIES SHOULD BE DISTRIBUTED BY NONCOMMERCIAL AGENCIES

This fact has a very important bearing on our ability to reduce our surpluses materially through exports. With foreign production and competition in foreign trade expanding it is necessary to pay more attention to the poverty areas of the world. The common view with regard to raising the living standards of these areas is that it can best be done through economic development programs that raise agricultural efficiency and create jobs. That of course is a sound view. But even if these areas were to make phenomenal economic progress there will still be 20 to 30 percent of their people getting only 2 or 3 percent of the available income. Programs that call for exchanging our surpluses for currency will not put food into the empty stomachs of people with empty pockets.

The President has proposed the use of $1 billion of surplus farm commodities over a period of 3 years to be made available to foreign countries provided they do not displace the usual marketings of the United States and friendly countries. The Secretary of Agriculture in announcing this proposal hopefully said:

> Through steps such as these we must find the solution to the surplus problems which have been plaguing us in recent years.

In view of the difficulties already encountered by FOA and the Department of Agriculture in making use of the authority already available for such purposes it is doubtful if programs such as this will make much of a dent in our surplus stocks of farm products or in the world's problem of undernourishment, without adopting another approach.

In the first place, $333 million per year are only 1 percent of the cash value of our annual farm output, only about 6 percent of the value of commodities in current CCC operations. These percentages become even smaller if the commodities to be made available are valued at points of delivery in foreign countries. In the second place, it will be necessary to shift from a concern about interfering with normal commerce to a concern about getting surplus food as directly as possible to the people in need. That will call for making full use of the experience of private nonprofit welfare organizations in working with comparable organizations in foreign countries under appropriate guidance. The main point is that grants of surplus goods destined for needy people whose poverty isolates them from regular commerce should not be checkmated by requirements that the goods be sold for local currencies. Hungry people as a rule have neither dollars nor local currencies. Grants to them are not, and need not be, a threat to normal commerce.

CONSUMERS WON'T REVOLT IF THEY HAVE THE FACTS AS TO PARITY PRICES AND PARITY INCOME

The argument has been advanced that we are likely to have a consumer revolt unless the flexible price supports and modernized parity computations are adopted. This implies that urban people think farm prices are too high and that farmers are getting too much. If this is a correct sizing up of the urban consumer's attitude then the responsible officials have failed to inform the public of several important basic facts. One such fact is that for the past 7 years it has not been farm prices but rather industrial prices, rents, and distribution costs that have kept up the cost of living. Another set of facts that needs more general understanding has to do with parity prices and parity income. In the case of the parity price formula, the Secretary of Agriculture has told you, modernized parity means discarding the outmoded 1910–14 base. The President's Economic Report states this more correctly. The modernized parity formula does not discard the 1910–14 base. It alines the parity prices of individual commodities around the general parity index still tied to the 1910–14 base. I think the 1910–14 base should be entirely discarded. I also think the method of modernized parity is too crude for accomplishing the desired purpose. It serves to perpetuate distortions created by World War II and by the Korean war that have no influence in current and prospective parity price relations.

FARMERS AS A GROUP DO NOT EARN PARITY INCOME

The parity income formula in the 1949 Agricultural Act is cut loose from the 1910–14 base. It has not yet been given statistical meaning by the Department of Agriculture. Parity income is defined without reference to a base period as that gross income from farming which would give farmers and their families a standard of living equivalent to the living standard afforded to persons engaged in other occupations. Does that mean that farmers should earn 10 percent on their equity as manufacturing industries do, and that farmers should earn about $1.70 per hour for their labor as most industrial workers do? The fact of the matter is that the present level of farm prices averaging below parity does not yield farmers as a group a nonfarm return on farm capital nor a nonfarm wage for their labor. Even if you compute the return to farm capital at 5 percent instead of 10 percent, which is typical of other industries, the 17 billion hours of labor put into producing the 1953 agricultural output would probably bring farmers about 75 cents per hour, just about equal to the outmoded minimum industrial wage.

STUDIES SHOULD BE MADE AVAILABLE SHOWING PROBABLE EFFECT OF PROPOSALS ON PRODUCTION, CONSUMPTION, PRICES, AND INCOME

I have suggested that in appraising the President's farm program proposals commodity by commodity you should have made available to you the findings of the study committees that led to these proposals regarding the probable effects of flexible prices and modernized parity in the production, consumption, exports and income of the commodities involved. I have also suggested that a clearer analysis than is now available be presented as to the relation of farm returns to the parity income standard provided for in the President's proposals. And I would now add a third suggestion, that you be supplied with a general appraisal of the possible extent of the reduction in farm income that could take place—I don't mean to say will take place—if the proposed parity provisions were to be generally in effect. Can one assume that the general level of farm cash income of $32 billion in 1953 could, without increasing the level of consumption, fall by as much as 15 percent, the range of the flexible scale of prices, or the equivalent of, say $5 billion.

BASIC STUDIES NEEDED FOR ANTICIPATING YEAR-TO-YEAR CHANGES IN AGRICULTURAL PRODUCTION

One final observation. You will have noticed that I have said nothing about 1954 or 1955 prospects for farm output here or abroad. The reason for this is that the President's report fails entirely to supply any facts or clues as to future production, not even as to production for 1954. Yet a great deal depends on the outcome of these prospective crops, such as the volume of CCC operations, price movements, farm income, foreign trade, business in general and the Federal budget. I know the reason for this failure, the common belief that it is impossible to predict the effect of growing conditions on crop results. It may be true that the past tells us little about the future of business conditions as the Economic Report says. But this does not hold for the processes of nature that affect agricultural production. I have reason to believe that variations in yields per acre due to weather can be more easily and correctly predicted than man-made economic conditions. As a matter of record, definite clues as to the improvement in the 1953 winter wheat crop, the record 1953 yield per acre of cotton and the outcome of the 1953 corn crop were contained in certain statistical investigations that I called to the attention of the Secretary of Agriculture and all the Assistant Secretaries a year ago, long in advance of the out-turn of the 1953 crops.

The reason for introducing these observations is to suggest that your task of guiding the national economy along a more stable trend of expansion than we have had in the past would be considerably lightened if basic research were set in motion to discover means for anticipating a year or more in advance the variations in per acre yields of the most important crops. There is ample evidence to show that this effort would be highly rewarding and that much of the uncertainty as to fluctuations in agricultural production and prices would be removed.

As Mr. Lickert did before this committee the other day, I would like to put in a plug for some very vital research in the predictability of year-to-year variations in crop yields. Without such information this committee will continue to be hampered in its efforts to reduce agricultural instability in behalf of a more stable expansion of the economy as a whole.

Chairman WOLCOTT. Thank you, Mr. Bean. On the question of flexible versus rigid price supports, Mr. Norton.

STATEMENT OF L. J. NORTON, PROFESSOR OF AGRICULTURAL ECONOMICS, UNIVERSITY OF ILLINOIS

Mr. NORTON. Mr. Chairman, first I should like to speak as the owner of a 240-acre cash-grain farm located in eastern Illinois. My income from this farm is drawn largely from sales of three price-supported commodities: corn, soybeans, and oats. So I have had some first-hand experience with Government programs. My opinion is that as a landowner my income will be higher over the next 5 years if we move to a lower and more flexible level of price supports than if we extend rigid supports at 90 percent of parity. Note that I say "income" and not "price." It is "income" and not "price" that counts. Income is the product of price times volume sold. Net income is the product of these two less expenses. American agriculture at the end of 1953 was selling about 1.4 times prewar volume at a price 2.5 times prewar. Both determine income.

The reasons I think my income will be larger with lower and more flexible price supports are:

1. There will be less interference with the acreages of crops than I can plant. I can continue producing the best crops for my land.
2. There will be less tendency for output of these crops to expand in other parts of the country to replace acres displaced by marketing quotas.
3. There will be more tendency for corn and soybeans to move into use, and so less tendency for stocks to accumulate, which set ceilings on prices.

These are all essentially feed crops that find their outlet in feeding livestock, dairy cattle, or poultry. High-level use of feeds by producers of these animal products requires that the price ratios between grain and livestock products be favorable. Aside from dairy products, prices of none of these livestock products are supported. I told a group of farmers at a local township discussion meeting sponsored by the Farm Bureau: "I sell my grain; it is only common sense for it to be priced so that livestock men can use it profitably."

You may ask: How many farmers and landowners in Illinois think the same way? I firmly believe that more do so than some Congressmen appear to think. The 17.5 percent cut in corn acreage is a sobering influence even on farmers who have regularly used the CCC loans, as I have not. At the local meeting to which I referred, 27 farmers expressed their opinions after an hour's discussion: 23 favored flexible prices; 3, 90 percent of parity, and 1, 75 percent. In my county the majority of the township favored flexibility.

I know no one who is opposed to maintaining a high level of farm income. But I should like to note that all the apparatus of price supports did not prevent a decline of 21 percent in the average level of farm prices from February 1951 to November 1953.

The outlook for agriculture in my section of the United States looks bright to me. It is based on the best market in the world: the high-level consumption of animal products by 161-million-plus high-income Americans. Even the foreign market for products of this section has continued good. While over-all exports of American farm products were falling sharply in the past fiscal year, we sold foreigners more corn, more soybeans, and more animal fats. The foreign markets are again highly selective. They buy what they need when it is priced right.

More basically income-wise, we are all operating with a cheaper dollar as a result of what I believe will be permanent effects of wartime inflation. So I think the fear of really cheap farm products is groundless. And I believe that our monetary and fiscal authorities are alert to both further inflationary and deflationary forces. I do not consider our price-support activities essential in maintaining a high level of prices.

My opposition to high-level rigid price supports is based on my confidence in the domestic and world markets for United States products. Unlike some economists, I do not believe the cards are stacked against the farmer. I believe that prices have roles to perform in the economy in getting goods consumed and in stimulating desirable adjustments among various farm products. The present high-level supports interfere with these functions in ways that will cause long-run damage to farmers and consumers and also cause large and unnecessary expense to the Federal Government, and so to taxpayers.

I note that our so-called surpluses are concentrated in the areas where there are 90-percent price supports: In wheat, cotton, cottonseed oil, dairy products, and to a more limited extent in corn. But after 5 big corn crops from 1948 to 1952, on last October 1 our carryover of corn was only equal to 2 months' supply above a normal carryover of 300 million bushels. It was only 2.9 percent of the production of the 5 preceding years, and it is the only reserve of feed that we have.

We have only small stocks of products for which there are no price supports—except for temporary seasonal surpluses, as in potatoes. Stocks of meats and poultry products are small. The market has absorbed the output. So a lower level of price supports, with some flexibility, would:

1. Move more goods into use.
2. Tend to reduce large and expensive carryovers.
3. Tend to avoid drastic cuts in acreages of supported crops.
4. Tend to cause desirable adjustments in production of individual products.
5. Avoid attempts to export surpluses to other sections of the country or to foreigners. In the long run this fifth point is impossible.

No sensible person argues that lowering supports will lead to a general decline in output of farm products. Overall agricultural output is highly stable and does not react much to lower prices. Raising this issue is simply setting up a straw man. But lower prices for some items will lead to shifts in production. There is plenty of evidence for this point.

So far as the President's specific proposals are concerned, I think those for corn are good. If they are adopted, the situation will straighten out quickly. I think the recommendations for wheat and cotton will operate too slowly and will delay the adjustments necessary for putting these industries on a sound and long-time profitable basis.

Attempting to set aside part of any stock as a special reserve is sheer fiction. Every bushel and every bale will still be a part of the total supply and will be so regarded by every buyer and seller in the world. There are basically no special uses that are not a part of the market. Even giving away products tends to interfere with our or someone else's sales. But allowing some time for these carryovers to be fully counted as part of the normal supply may be justified in order to ease the blow on these industries. I take this last position in view of the very sudden emergence of the large stocks of cotton and wheat.

But delay in getting rational prices established for products where real surpluses exist simply postpones the final day of reckoning.

I am glad to see that the responsible officials in the United States Department of Agriculture are taking an aggressive attitude toward sales of accumulated stocks. Congress should consider eliminating provisions of the law that hamstring and delay these efforts. There are many places where more goods can be sold to advantage both at home and abroad.

I have no faith in give-away programs in improving farmers' incomes. Practically all of the American people have the money to pay for their own food. In view of the great economic progress abroad, foreign people also have the funds to pay realistic prices for needed farm products. When real distress develops, either here or abroad, Americans have a good record, both individually and as a Nation, in reducing real distress.

As I came into the airport last night, I saw that the Government was beginning to give relief to 200,000 people. Well, this sounds like a lot. But I think this is one-fifth of one percent of our population. It is an illustration of the fact that when real distress develops we move. But to assume that these things are really going to do much to clean up farm surpluses is just sheer nonsense.

I have a somewhat longer statement that I would be glad to file with the committee.

Chairman WOLCOTT. We would be glad to have you file it, Mr. Norton.

Mr. NORTON. I think I might say that I stayed within my time allotment, sir.

Chairman WOLCOTT. As I say, that is a flexible thing.

(The supplementary statement of Mr. Norton follows:)

THE CASE FOR MEDIUM PRICE SUPPORTS

By L. J. Norton [1]

In taking the side of a medium level of price supports, I am not arguing for a low level of prices. In Illinois 60 percent of our farm income now comes from commodities with no price supports. These have sold as high as the supported commodities, if not higher. Your ratio of nonsupported commodities would likely be higher in Indiana than ours is in Illinois. A major supported Illinois crop, soybeans, has always sold above the loan except for short periods, and therefore the loan has had little or no effect on its price.

And corn from the 1948 and 1949 crops sold below the loan from October 1948 to the late spring of 1950. All corn sold at harvest time in 1952 and 1953 sold below the loan. After the overrun corn was cleaned up, the price dragged along in 1952–53 at, or just under, the "effective loan" all season. This year it has not gone that high.

What do I mean by the "effective loan"? It is the loan less costs borne by the borrower. As farmers estimate them, these costs seem to be about 10–12 cents a bushel. But, you say, most farmers obtain loans and so get above market price. Only 15 percent of our corn in Illinois went into the loan from the 1952 crop, and we normally sell 40 percent of our crop. I suspect that you make even less use of the corn loan in Indiana.

In Illinois we sold the last two wheat crops at substantially below the loan. Only about 6 percent of our 1952 crop went into the loan; perhaps 25 percent did in 1952. Most of the wheat was sold at 70–75 percent of parity price.

Two widely promoted ideas are simple fiction:

1. High prices for farm products are in large measure caused by price supports.
2. The complex arrangement of price supports and acreage allotments guarantees a minimum level of farm prices.

Let's talk about facts in place of fiction: Prices of United States farm products went down from an index of 313 percent in February 1951, to 249 percent in November 1953, or by one-fifth. This decline of 32 months' duration was one of

[1] L. J. Norton, professor of agricultural economics, University of Illinois. At Purdue University Agricultural Conference, January 5, 1954.

the longest in our history. It occurred in spite of all the mumbo-jumbo of price supports. Is it not time to look at the real world and not live in the never-never land inhabited by those who think that the sum of favorable price levels rises and sets in the complex of Government price supports for farmers?

I have said publicly over the last few years that over the next 5 years, I expected the farm price index to work in the level of 225–280 percent of 1910–1914. At 249 in November 1953, it was slightly below the middle of the range. This forecast is based on three assumptions:

1. We have a cheaper dollar than we had before the war.
2. Inflation is over. In fact, our primary postwar inflation ended in 1948. In the event of a major war, this assumption would not hold. I do not expect such a war.
3. Any administration which the American public will elect will follow anti-deflationary money and credit policies.

This forecast stands regardless of what Congress does about price supports.

Gross income, as the most simple-minded person knows, is the product of physical output and price. Net income is this figure less costs. The price supporters forget about output. Since price supports lead to accumulation of supplies and make acreage reductions necessary, they cut physical output—and so one of the bases of income. The supported commodities are largely export commodities. If any supply figure is relevant in determining their price, it is world—and not United States—production. We may or may not have a shorter wheat crop in 1954. This depends on the weather and on the extent to which use of fertilizer is increased. But the price may be no higher than it was this year. It depends on many factors other than size of the United States crop. So incomes from wheat in Indiana and Illinois may be less even with reduced acreages.

Basically the people who favor high-level price support show total ignorance concerning all the facts of the market. They seem quite oblivious to them. The size of any economic market—what we can sell—depends on five factors: (1) The population of the consuming area we can reach, (2) the per capita income of this population as it affects use, (3) the habits and tastes of this population, (4) the effectiveness of the operational markets in reaching all consumers, and (5) the skill with which the product is priced.

Consumers of most commodities are sensitive to prices. Every commodity competes in the market place with every other product. Prices must be judged against the general level of prices. Since the average of farm prices is now about 2.5 times the prewar figure, this means that the level need not be low as judged by historical standards. The price of a commodity must also be correct in relation to prices of directly competing products.

Use of some products is rather insensitive to price. Wheat for food in the United States is a case in point. We can sell about 500 million bushels for this purpose,, regardless of price. Wheat for feed is quite a different matter. But even within the range of the commodity that we call wheat, some substitution is possible on the basis of prices of different classes. There is no question but that millers have used more soft wheat this year because it was cheaper than hard wheat. Some 1953 southern Illinois soft wheat was even shipped to Kansas City.

But when we come to the great group of products that provide the real outlet for Corn Belt agriculture—that is, meats—use is highly flexible and highly responsive to price. Last year we sold about 30 percent more beef. Why? Because the trade established a price structure that induced people to buy more beef.

The Midwest, where we live, has markets for about these quantities of our common products:

1. Five hundred million bushels of wheat for food; another 100 million bushels for feed, unless wheat is priced to compete with corn; another 250 to 300 bushels for foreign outlets, but a subsidy of about 50 cents a bushel is now required to move it.
2. About 250 million bushels of corn for commercial use: starch, corn sugar, cornmeal, whisky, breakfast foods, etc. From 100 to 150 million bushels of corn or grain sorghum equivalent for export.
3. About 40 million bushels of oats for breakfast foods.
4. About 90 million bushels of barley for beer.
5. All the soybean oil we can produce for domestic use and export.
6. Twenty to thirty-five million bushels of soybeans for export.
7. All our surplus lard, tallow, and grease for foreign markets.

After we have scheduled for these uses, the rest of our output is for feed—simply feed for livestock: cattle, hogs, sheep, and poultry. We use most of the animal products in this country except the surplus fats and some dairy products. We have a wonderful market in one-hundred-and-sixty-million-plus high-income consumers. But since the volume of output of these products is constantly fluctuating, and since consumer incomes vary, meats and live animals must sell at variable prices. Except for dairy products, the Government does not monkey much with prices and markets for these products. To maintain the right balance there must be flexibility in prices of the feeds. And, of course, there has been and still is.

I own a cash-grain farm about 30 miles west of the Indiana line. My rent comes to me in grain. It is no more than commonsense that, if I do not care to go to the trouble of feeding this grain, I must price it so that other farmers can find it profitable to feed it. This is based on nothing but elementary knowledge of real markets.

We can exaggerate the tendency for our price supports to build up big stocks of feedstuffs. The reason is partly because the price supports have not been too effective, as I said at the start. Last October we had a total carryover of 765 million bushels of corn. This is only 465 million bushels over a normal carryover of 300 million bushels. Where did it come from? Out of the 5 huge corn crops we raised between 1948 and 1952, which totaled 16.1 billion bushels. We accumulated only 2.9 percent of this amount and sold or fed up the rest. And this overstates the accumulation of feed. We have no surplus oats, barley, grain sorghum, byproduct feeds, oilseed feeds, hay, or pasture. Reduced to a total feed basis, this show-window corn is probably equivalent to a rate of accumulation of not much over 1 percent a year, a purely marginal quantity. With a slightly lower average corn price, it would all have been used up.

The situation does not justify severe cuts in corn acreage. Since the average farmer knows this, compliance in any corn program will not be high. It was only 50 percent in 1950, when corn prices were sharply lower than they have been during the past 2 years.

High-level price supports deny the validity of three simple principles of economics: First, the principle of market prices. Prices have powerful functions to perform in an economy. They perform them in spite of all the economic jargon of some economists who seem to believe that the basic operating laws of the real economic world disappeared when some economists, in studying this real world, developed the concept called "monopolistic competition." This simply showed how businessmen behave when they have some control over supply. Such control does not exist in agriculture, either with or without Government programs.

A surplus is always relative to price. We have such surplus as exists for feed because of arbitrary pricing of corn. We have a surplus of dairy products because we have practiced bad pricing. We have no surplus of beef or pork because we have permitted a good pricing system to work. We could get rid of our surplus of wheat if we allowed it to sell at feed prices. If you were a farmer in the Netherlands, the United States Government would now let you buy wheat at a feed price by paying 50 cents a bushel to the American exporter who exports it. If you are an Indiana farmer, you cannot. But you help to pay the taxes that Uncle Sam collects to pay for the bonus to the Dutch farmer.

Once a surplus accumulates, it operates to set ceilings on prices. It exerts its usual price effects even if it arises out of Government pricing.

The second economics principle that high-level price supports, with accompanying acreage control schemes, violate is the principle of comparative advantage. This merely says that people will do what they can do to greatest advantage. Farmers will use their land for the combination of crops for which their area has advantages. The wide application of this principle in the United States is one of the prime reasons for our great productivity and our high standard of living. American farmers tend to specialize. In such a widespread State as Illinois, five products earn 80 percent of our gross farm income: cattle, hogs, corn, soybeans, and milk.

Now when we go into acreage allotments or marketing quotas, we assign acreages on historical bases. Efficient areas cut down on the crops for which they are best adapted—corn, wheat, or cotton—and build up acreages in second-best crops. On analysis these all turn out to be feed crops. In the Corn Belt the system works out that we grow less corn and everybody else grows either more corn or a close substitute. If this is reduction, then I am a Chinaman.

Looking at it narrowly, all of these programs simply build up increased competition for the things we in the Corn Belt do best.

Farm organizations can pass pious resolutions interdicting certain crops on released acres. But this is pure "dust in your eyes." No farmer will let land lie idle. If he plants more of the much-honored soil-building crops, he is simply producing more feed.

The third violation is of the principle of efficiency. This simply means that things should be produced as economically as possible—that resources should be combined to yield maximum incomes to their owners and to society. I do not need to explain his principle further. Following it is basic to your business of management.

Carrying huge unneeded stock is sheer economic waste. What earthly use do we or the world have for an accumulation of 250 million pounds of butter priced above its value in any market of the world except in the highly protected Belgian or French markets?

I would insult your intelligence if I were to explain how you could increase your unit costs by tearing up your rotation and using your machinery and labor less efficiently. So I shall not do so. And many of you will recognize the violations by simply going about your business and farming as usual.

Now I am as much interested in broad markets as any man in this room. But correct pricing is often the key to developing and keeping such markets. I do not see the opportunities for large increases in foreign sales that some people talk about. I think we shall continue to have large exports of farm products, and I have said so ever since the war ended, when many people thought they would disappear. There is now no general shortage of dollars. The outside world has been building dollar balances here or buying securities for the past 18 months. But there are limits to our exports. The world's agricultural output has been rising ever since the end of the war. In most of the countries of the world the majority of the working population are farmers. They do not want—in fact they will strongly resist—large quantities of United States farm products dumped in their countries to upset their markets.

When real distress arises, we give what is needed. Within the past 3 years we have given wheat to India, grains and fats to Yugoslavia and, right now, wheat to Pakistan. And we should do an even better job of merchandising our farm products wherever they can be sold all over the world than we have done in the past. But to assume that we can sell or give away all that we can produce is simply wishful thinking.

I can summarize my views by a quotation. It is from the relevant resolution adopted at the 1953 annual meeting of the Illinois Agricultural Association—an organization with 200,000 members. No other group can speak with such authority for Illinois farmers.

Preparation of this resolution was preceded by a series of local community meetings to discuss policy. I went to my local meeting. Forty were there—men, women, and children. The discussions all turned to the matter of maintaining high income. Taxes were high. Farm machinery had not come down in price. You know—you have heard it all 100 times. It is the commonly accepted view of all American farmers and of all responsible farm leaders.

But then they voted: 23 were for flexible prices, 3 for rigid 90-percent support, and 1 for 75-percent support. I asked myself why, and came to this conclusion: These men were thinking of income. They did not want to tear up their rotations and cut down on their high-profit crop—corn. They knew that high-level price supports would force them to do so. They saw lower—and not higher—incomes emerging out of high rigid price supports.

It is true that in this same county other township groups expressed a preference for high-level rigid supports. But the majority voted like the people in the meeting I have described. Over all the State of Illinois the preference was for flexibility—that is, lower price supports when supplies are increased. I believe that this resolution reflects a majority opinion. This is the way it reads; I have omitted none of it so far as I go:

5. PRODUCTION ADJUSTMENTS AND PRICE SUPPORTS

National agricultural policy should be directed toward achieving for farmers full parity income in a free market. Farm legislation should be constantly examined for changes that are needed to bring it in line with current conditions.

High-level rigid price supports have contributed to accumulation of stocks of some commodities which, under existing legislation, make marketing quotas or acreage allotments mandatory. In connection with feed grains, we feel that greater flexibility in price supports would make a reduction in corn acreage less necessary and would operate to stabilize agriculture and increase longtime incomes.

We recommend that:

(a) Congress permit flexible price supports for corn to go into effect in 1955.

(b) The Secretary of Agriculture make use of the flexible principle in administering price supports for nonbasic commodities.

Chairman WOLCOTT. Thank you, Mr. Norton.

We will now hear Mr. Mitchell, chairman of the department of agricultural economics, University of Nebraska, also on the question of flexible versus rigid price supports.

STATEMENT OF C. CLYDE MITCHELL, JR., CHAIRMAN, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF NEBRASKA

The administration proposals for agriculture suggest only one important change for American agriculture—the flexible price support. Otherwise they continue almost unchanged the subsidies, controls, and assistance to agriculture which have grown up during past decades. I have two objections to the administration's proposals: (1) Merely to continue the broad outlines of the past course is not good enough in 1954, and (2) the one major change suggested is a change for the worse.

In support of this first argument, it seems to me that the administration's proposals are geared to the principle of a contracting and underemployed American economy rather than to the principle of an expanding and prosperous economy. The American economy does not contract with good grace. In this regard, the proposals fail to fulfill the responsibilities placed upon the administration by the terms of section 2 of the Employment Act of 1946, the enabling legislation for this committee.

My second charge. The one major change, flexible price supports, will not produce the economic effects that the administration expects it to produce. Contrary to the belief of the President, farm price reductions down to the 75 percent lower limit specified will not materially reduce any agricultural production in this country and will not increase consumption. On the production side, farmers respond quite readily to a rising price by increasing production; everyone knows that; but farmers do not and cannot respond to a falling price by reducing production. On the consumption side, a fall in farm prices results in a very tiny drop, or no drop at all, in the prices consumers pay, because of inflexibility in the marketing margin. Even when retail prices drop, American consumers do not customarily buy any more agricultural products, but they spend their windfall saving on other things. They make a downpayment on a television set, for example.

ARE HIGH FIXED PRICE SUPPORTS THE RIGHT ANSWER?

In the first place, I think it is a mistake to call them high when farm income generally is still below urban income and when the average family farm income—that of the middle and lower group, omitting the large corporate farmers—is very greatly below urban income of the middle and lower group.

No one should claim that the present program of fixed price supports is the right and final answer to the problems of American agriculture, and I do not so claim. If solutions are not found in two other problem areas, our present program of price supports, or any other program of price or income supports, flexible or not, will prove to be so costly and so wasteful that farmers and consumers alike will demand a change. Conversely, if these two problem areas are correctly handled, any one of several price support plans would work fairly well, and I would be quite willing to try almost any one.

Now, what are these two probems? The first major problem that price policy will not solve is that of expanding consumption of agricultural products among Americans (and to some extent people in other lands), so that our agricultural production will be used up as it ought to be used, to eat, to wear, to improve levels of living. The second problem is the problem of the one-third of our farm families who are working uneconomic farm units and living at a level far below our American ideas of decency. No conceivable price support at any percentage of parity would raise them up to that level of decency.

Now, to solve the first of these problems, consumption expansion, would require new consumption expansion programs, far beyond anything proposed by this administration, or indeed to be completely honest, by any past administration.

To solve the second problem will require new action programs aimed at assisting the low-income farmer to achieve a better living. The administration has in the main postponed consideration of this problem for another year. And it has said it is going to study it.

Having worked in an agency that dealt with the low-income farm problem myself during a period of Government service, in the Farm Security Administration, I can say that we have been studying this for long enough to have some pretty clear answers as to what needs to be done about the one-third of the American farm families who live below a decent level of living.

The American farmers, and the people who study their problems both in Congress and in the educational institutions, would be quite willing for changes to be made in the type and level of price supports if these two fundamental problems of consumption expansion and farm poverty were simultaneously made subjects of adequate legislation and governmental action programs. The friends of farmers in Congress would be quite willing to vote for a different or even a lower level of price supports if in the same bill or in the same pattern of legislation they could be sure that these two other major problems would be taken care of. In the absence of such a determined attack on fundamental difficulties of our economy, congressional leaders are quite correct in their continued approval of present levels of price support.

I would like now to take up for a minute the question that fixed price supports have made agriculture inefficient. I have heard that charge to a point where I think it needs to be refuted over and over again.

The argument that fixed price supports promote inefficiency is wrong on two counts. First, it is quite certain that the existence of a dependable price has enabled agriculture to become more efficient than it would have become under an unsupported system. Second, even where inefficiency exists, it is not important in a price-determining sense, or relative to other inefficiencies condoned in the American system.

There are good reasons to believe that fixed price supports have actually helped to lower food costs relative to other prices in the past 20 years. They are considerably lower, as a share of the consumer's dollar, than they were 20 years ago. The price stability which fixed supports guarantee made it possible for farmers to adopt the newest methods, experiment with new techniques, borrow money and make heavy outlays for new capital equipment, all of which would have been risky under uncertain market conditions. A large portion of the benefits of this increased efficiency is undoubtedly passed on to the consumer, though not the entire amount of it, we must admit.

Of course, there is some inefficiency in American farming just as there is everywhere else in our economy. Under a fixed price system or any other type of price supports, the inefficient just barely get by and the big profits are made by the most efficient. Undoubtedly some extremely big farm operators get rich. A fixed price-support program probably enables them to get rich a little bit faster than an unsupported system would, but even that is something that economics cannot prove. There are several ways to attack the welfare problem of income distribution in our society, but it is fairly certain that an across-the-board reduction in agricultural income through price reductions is not the correct way, particularly when incomes of most farmers are not yet adequate in comparison with those of city workers, and particularly when the family-sized farm would be the one worst hurt.

I would like now to consider the regimentation argument.

Regimentation has not been a major problem under fixed price supports. Farmers, it seems to me, have willingly made an exchange of some freedoms which they would enjoy under an unsupported system for other freedoms which they enjoy under a reasonable support system. They have discovered that under the supported system a very significant freedom they enjoy is the freedom to plan their production and their family expenditures for a number of years in advance, knowing that violent price drops will not wreck their plans for a decent home, farm improvements, education for their children, and secure provision for old age. Of course, they have suffered a slight loss of certain other types of freedom, such as the freedom to plant their entire acreage to wheat or cotton. However, farmers have participated as members in the restriction program, and it is fairly evident that they consider the Government's role that of a partner in the businesslike undertaking of keeping production adjusted down to consumption. (As I am going to indicate elsewhere, I do not think that agriculture should make any sizable adjustment downward.)

Regimentation is, however, possible if we persist in a downward adjustment. The controls that farmers have objected to in the past have not weighed too heavily upon them. They made acreage adjustments, but they were so small that new methods of production usually kept well ahead of acreage adjustments.

In the future, however, we probably face really drastic production adjustments, particularly in wheat and cotton, if our Nation adopts the policy, implicit in the President's report, of trying to adjust production downward to demand rather than trying to expand demand upward to production.

In this event, either with a fixed price support or a flexible price support at the politically acceptable level of 75 percent, production would have to be cut much more drastically than anything else we have ever tried. I am estimating that 50 percent of the wheat and cotton acreage would have to be taken out of production. This direction of affairs would certainly produce regimentation, but the blame would have to be placed not on the idea of price supports as such, but on a major failure of the operation of the American economic system.

The Administration has accepted too uncritically the allegation that agriculture is somehow overexpanded by war and that it should willingly accept downward adjustment like a gunpowder or an aircraft piston-engine manufacturer. I do not think this is a correct analysis of the problem.

Frankly, I see no possible way for American agriculture to make any sizable adjustment downward without admitting that the entire American experiment in enlightened capitalism is a complete failure. Frankly, I see no reason for American agriculturists being forced to make any sizable adjustment downward. They know that their products are needed by human beings, both here and throughout the world. The problem is fairly simple to the farmer—do something to adjust the crazy out-of-kilter economic system which lets food and cotton lie idle while people need it. Do something in peacetime which accomplishes much the same effect so far as full employment and full production and adequate distribution are concerned, that was accomplished in wartime, but without the killing. And if we can do that, we can aid materially in helping to build a world where the killing might not be so necessary.

To take the course I have suggested would mean profound, dramatic action on the part of the United States Government, things which would cost money, it is true, and would require expansion of some governmental activities, it is true, and might bring about increased budgetary deficits for a time—in short, many of the things that campaign pledges promised to change. But unless these things are done, I have no great amount of hope that the current retreat in agricultural income will not lead to a genuine depression in agriculture.

Chairman WOLCOTT. Thank you very much.

(The complete text of Mr. Mitchell's statement follows:)

NO SIMPLE PLAN WILL WORK—STATEMENT BY C. CLYDE MITCHELL, JR., CHAIRMAN, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF NEBRASKA

SIMPLICITY WAS ONCE THE RULE FOR AGRICULTURE

Back in the 1920's America's farm policy was simple. Aside from federally supported research and financial aid to the Extension Service, there simply was no national farm program, in present-day terms.

In recent years, farm programs have become complex, costly, and sometimes even wasteful. Americans have many other things to worry about; events all over our shrinking globe demand attention, and each problem appears to be more urgent than the last one. It is understandable that many Americans seek to reduce their worries wherever they can. Some of them believe that our agricultural problems can be solved by simplification—by reducing the size and complexity of our Government programs—by falling back on what they believe to be "fundamentally sound economic principles of supply and demand." If these principles were allowed to operate, these people argue, there would be less need for the complex and costly Government programs we have today.

THE ADMINISTRATION PROPOSALS ARE ORIENTED TOWARD THE CONTRACTING ECONOMY

No matter how much we would like to return to the simple life of the 1920's, however, it cannot be done. A good farm policy for America's future will continue to embrace a complex collection of programs to deal with a complex collection of problems, problems of the 5.3 million Americans who produce and the 160 million Americans who consume our agricultural goods.

The administration's proposals, to be sure, do not make the mistake of attempting to return American agriculture altogether to the doubtful mercies of the unsupported market, the so-called free market. A year ago some of us feared that this would be the case, on account of statements by administration leaders early in 1953. It is now obvious that the realities of a year in office have convinced these leaders that no simple plan will work.

The President's proposals range from a "Fair Deal" idea (direct subsidies to wool growers) to the opposite, "conservative" end of the political scale (lower "flexible" price supports). Aside from these two extremes they suggested nothing really new. They continue almost unchanged the subsidies, controls, and assistance to agriculture which have grown up during past decades. Merely to continue a past course is not good enough in this case, however. In my opinion, there are several major shortcomings in the President's proposals, and these are serious enough to presage the failure of the program from political and economic standpoints. I shall go into these at more length later. Permit me at this point to summarize broadly:

(1) The administration proposals, despite many realistic features, still pay tribute to an economic philosophy that is inadequate to explain our most important agricultural problems or help solve them today. This is the economic philosophy that holds, in the face of overwhelming contrary evidence, that our American society is a freely competitive economy in which price-changes can and do regulate properly most economic activities. Notwithstanding the fact that such an economic philosophy has been taught and accepted by generations of scholars and students as realistic, modern understanding indicates that the entire structure is faulty in logic and unrealistic in fact. Our economy is not freely competitive and prices alone do not regulate economic activities properly.

(2) My second objection is even more serious. The administration's proposals are, to a dangerous degree, geared to the principle of a contracting and underemployed American economy, rather than to the principle of an expanding and prosperous economy. In this regard, the proposals fail to fulfill the responsibilities placed upon the administration by the terms of section 2 of the Employment Act of 1946.

HOW FREELY COMPETITIVE IS THE AMERICAN COMPETITION SYSTEM?

In suggesting remedies for these two major faults, I have assembled on later pages ideas that seem to me to be workable suggestions for improving America's agricultural policy. I should like to list them here and now, but that would not be wise. Many of my audience would not stay with me when I launch into a complex set of suggestions for changes in the present laws and the addition of new governmental programs. They would say something like this: "Why all these Government programs—why not 'go back to free competition' and 'get the Government out of agriculture?' Then the 'simple forces of supply and demand' would regulate American agriculture and we could reverse the 'trend toward socialism' we have followed for 20 years." A few might add, after a moment's reflection, "Of course a few short-run Government programs would be needed to keep this sudden 'cure' from being too drastic to farmers who have begun to rely on Government, but at least we will be heading in the right direction, back to simplicity, free competition, and free enterprise."

I might say at this point that economists, all of us, would probably be extremely happy if our pressing problems of social policy could be answered that way, by going back to simplicity, free competition, and free enterprise—it would make the economists' job simpler and more exact. Unfortunately for economists, we cannot go backward. There appears to be no way America can achieve the fancied benefits of free competition, completely free enterprise, simplicity and smallness of Government, abolition of bureaucracy, and all these other things mankind yearns for in this hectic world, without wrecking the complex industrial and commercial system that produces the miraculous flood of material goods and services that make America the envy of the world. In spite of all the things we read and hear about the "American free economy," we must bear in mind that the American economy is both free and not free. It is an economy of people who enjoy more freedoms than any people in the world, but it is not a "free economy" in the sense that economists have traditionally used the word. In the economists' definition, a free economy is one in which there would be completely free competition in prices, and it is one in which all producers and all middlemen and all consumers would be completely free competitors. No person or organization in the whole economy could have any effect on price, nobody could affect production decisions—competition would rule all that. Competition would require that every producer produce all he possibly could, and sell at the lowest possible price. In such a society, the consumers would, of course, get all their goods and services at the lowest possible prices, and everybody would, presumably, be as happy as possible.

In such an idyllic world, there would be little or no need for Government. Possibly a small Government would be tolerated, in order to carry on foreign affairs, and maybe to deliver the mails and coin the money, but nothing larger than that. The problem of Government control of economic affairs would never arise, because economic affairs would control themselves through completely free competition and "the price mechanism."

When the simple dreamworld of the free-competition, private-enterprise system is described in such terms, no one has difficulty in recognizing that America is not that kind of a system. America is many complicated things, but America is not that. America is a "modified" semi-free-enterprise system, in which a lot of competition exists but is not free-price competition. Even if all Government officials and laws should disappear at the stroke of a magic wand, our economy would still be a "controlled" economy. Private controls of many kinds would still exist. Most industrial and commercial businessmen in this country would still be able to set prices and stick to them. Most of them would still be able to lay off workers and curtail production when sales lagged. (In the simple competition system that could not be done; all producers would have to continue production at top efficiency, but would have to lower price.) Instead of using the magic wand to wipe out all Government officials and laws, suppose we used that wand to wipe out just those Government officials and laws that have come into existence during the New and Fair Deals—would we be significantly nearer to a free-competition system then? Actually not much nearer, if at all. Competition would still be greatly modified by patents, trademarks, tariffs, "Fair Trade Practices Acts" which allow fixed prices to be maintained, subsidies to railroads, shipping, and air transportation, labor unions, trade associations, medical associations, partial monopolies of one sort or another—all these things predated the New Deal, some of them by 150 years. The second law passed by the Congress of the newly created United States of America was the subsidy to business that we call protective tariff.

AMERICA'S CONTINUOUS PROBLEM OF CHOICE

The choice America continually has to make in its agricultural policy, just as in its other policies, is not between a free economy and a controlled economy. For a long time, so long that most of us have accepted it as a matter of course, America has been an economy where many controls and subsidies have been built in. Merely to eliminate Government controls at one point does not necessarily mean that our economy has less controls—it usually means simply that private controls work more strongly than they did before. The real choice America has to make is to consider the many alternative sorts of controls that our economy could work under, and choose the ones that seem to promise the best life to most people.

Farmers, of all the major groups in America, seem to be the ones who have been forced most nearly to follow the rules of "free competition." No farmer can himself set the price of his product, and no one of them is big enough or important enough to affect either price or volume of production. In contrast to industrial factories which cut production when prices drop, farmers must keep right on producing in the face of price declines. They must even attempt to increase production in the face of price drops so that they can meet mortgage payments and other fixed expenses. In depressions, farm production remains steady or even increases, while prices crash to the bottom. In the great depression of the thirties, industrial prices dropped only slightly, but the owners of

American industry shut down their plants and held physical production back to half capacity and even less. This completely different behavior of farm and nonfarm producers has long ago convinced most farm people that something was inconsistent about the "rules" of the American free-competition private-enterprise system; almost nobody but the farmers followed the rules. If the Americans who speak of returning the farmer to a free enterprise system want to be consistent, some farm spokesmen say, then American industry should be broken up into small units which are forced to follow the rules of the hypothetical game of free competition. Others say, "no, it is impossible to break up American industry; the farmers must get the Government to assist them with economic power that will enable farmers to perform efficiently in a world of modified competition and monopoly." Which course has America followed? Well, as is often the case in our great democracy, we have tried to follow both. For more than 60 years we have officially been trying to "bust trusts," and make American industry follow the rules of completely free competition. Aside from a very few cases in which flagrant violations of the antitrust laws resulted in relatively light penalties on the offenders, the efforts of America to force nonagricultural business to compete freely in the price market have been impressive failures. Recognizing this, farmers have insisted that the second course also be followed, that the Government throw its power on the side of farming so that a fairly decent farm living could be achieved.

RECENT GOVERNMENT PROGRAMS FOR AGRICULTURE HAVE BEEN FAIRLY SUCCESSFUL

That this course has been fairly successful is no longer argued by anyone on the American agricultural scene. Neither major political party would be so naive as to imply that the farmer should give up the benefits he has achieved through governmental cooperation in the past 20 years.

Just what are these governmental measures that have given American agriculture some power and control over its environment that the "free market" apparently was not going to give? Most people think only of price supports in this connection, but price supports are only part of the picture. Let me review briefly a few of the things that Government has helped farmers achieve that "free competition" would probably never have allowed:

(1) Agricultural credit. Before 1929, farmers had been traditionally required to pay exorbitantly high interest rates, and the availability of adequate credit was dependent to a great extent on the city money markets. For more than two decades, governmental action has made it possible for farmers to borrow adequate capital funds at low rates. The "free competitive money market" would never have accomplished this veritable revolution in capital availability that has enabled American agriculture to become the best equipped, the most efficient, and the most productive in the world.

(2) Agricultural research. Effective research in the modern world is expensive. Government action established productive research organizations, which gave farmers various powers over problems science can solve—powers they would not have been able to achieve in the free market.

(3) Expansion of food markets. Government action has sponsored school lunches, food-stamp schemes, in-plant lunches, surplus disposal plans—all of which have served to introduce better food in better varieties to people who thereby have become better customers for the product of America's farms. The free competitive market, depending on price as the sole regulator, could never have accomplished what action and educational programs have accomplished to expand consumption and improve health.

(4) Price and income supports, crop loans, and their associated production restrictions have undoubtedly added to the ability of many farmers to cope with America's industrial economy, in which control over price and output has long been exercised by private groups. Whether these programs have worked well enough or not, or have been too costly or not, is a highly debatable subject. My argument here is not on the question of whether they are completely perfect or not, but whether they have "worked" to increase the market power of many American farmers. I think they obviously have, and that a "free" market in agriculture would never have allowed farmers to gain power to offset industrial, professional, and labor power in this real world.

(5) Conservation cannot be left to the "free" market. Indeed, too great freedom has undoubtedly led to the denuding of our forest areas and the erosion of our topsoil. Governmental action, demanded by all our citizens, both farm and city people, has aided our Nation to conserve its resources.

(6) Efficient marketing of the products of millions of farm producers has demanded such governmental action programs as market agreements and orders, inspection and sanitation regulations, import and tariff controls, international commodity agreements, market news and reporting services, and hundreds of other methods of controlling some of the market conditions which farmers face. It is difficult to conceive that "free competition" would have furnished such things.

(7) There are hundreds of additional examples not fitting into any of the above categories, but nevertheless important to farm people. For example, road building and improvements, the REA, flood control, the huge irrigation programs, watershed and river basin development, assistance to cooperatives—all of these things have resulted from governmental action to do things that free competition would never have done.

Obviously no administration is going to propose that farmers give up all these things. There appears to be no good reason why they should. On the industrial and commercial side, few people are seriously proposing that all trade-marks, patents, tariffs, labor unions, trade associations, price-fixing agreements, advertising, transportation subsidies, and tax writeoff be abolished. Nor is anyone seriously proposing that large mass-production American industry be broken up into small enough segments that the rules of free price competition can "correctly" govern our economy. No, the most realistic thing our citizens can do is to recognize our modified private-enterprise economy for what it is and try to improve the laws and governmental programs which make up the environment in which it works. For agriculture, this will involve moving ahead on many fronts at once, not just on the price-support front.

NO SYSTEM OF PRICE SUPPORTS CAN SOLVE OUR MOST CRITICAL PROBLEMS

Two great problems exist that price supports cannot effectively solve: the problem of increasing the consumption of American agricultural products, and the problem of the low-income farmer. I will go into these in greater detail later, but let me say here that if these two problems are not solved, no agricultural price policy will be successful enough to suit both the farmers and the rest of the taxpayers. If these two problems are solved, any one of several price policies now being proposed would probably work fairly well. But let me explain: The first great nonprice problem is consumption. The nutritionists and population experts have a great deal to tell us here. If the American population grows as is presently expected, there will be an additional "fifth plate" in the homes of America in 1975 for every four that the American farmer now fills. We do not need to look to 1975 for relief, however. If the American people could be taught to eat and like the foods the nutrition experts say they ought to eat, there would be no surplus foods in this country today. (The nutritionists say that our population would be much healthier if it increased greatly its consumption of meats, fruits, vegetables, poultry, and dairy products.) These two factors coupled together mean that shortages, not surpluses, may be America's problem in 20 years and that agricultural production research will have to speed up its brilliant performance of past years to keep us well fed. But for a few years at least, we are going to have surplus problems. How should we attack them?

Well, to begin with, let's divide the surplus products into two parts, the part that can be safely stored for considerable periods of time, and the part that spoils quickly. The storable surpluses should not worry us nearly as much as they seem to. In past years, the presence of surpluses has proved to be fortunate for the United States and the free world generally. There is no reason to believe that the next 20 years will be any less a period of continual crisis than the last 20. Compared with the huge expenditures the United States makes for defense and national security, the management of stored foodstuffs, particularly the nonperishables, has proved to cost relatively very little when we consider the amount of security gained. There is considerable merit to proposals that "security stocks" of the storables equal to as much as a full year's domestic needs (or even more) be maintained in good condition. Of course to avoid adverse effects on the price of the crop in the regular producer-consumer market, these security stocks will have to be held under guaranties that they be kept for true emergency use—that they will not enter the market or depress prices at other times.

CONSUMPTION EXPANSION IS A BETTER ANSWER THAN PRODUCTION CUTS

It is true that after the buildup of security stocks of storables has taken place, the potential surplus problem would still be with us. However, the few years of buildup could give us time to develop action programs aimed at increasing and maintaining consumption of the higher quality foods. Such programs offer the best long-run hope for agricultural adjustment. Correct diet for the American people, involving as it would much higher consumption of animal products, would use a large supply of America's grains for feed. Equally as important in avoiding surpluses would be the necessity for shifting several million acres of poorer-quality land now in row crops into pasture and forage-producing land to supply the roughage needed. The conservation and fertility improvements that would result from this wholesale change in land-use would be byproducts of great significance to our future.

Lower food prices—either via Brannan or flexible plans—are not the answer

To get the diet of the American people changed in such a profound manner is not easy, however. The American people seldom have empty stomachs in this day and time, but nutrition studies of our population reveal that millions of us are badly fed. Too many of us eat the wrong kinds of food. The diets of most Americans, and particularly those in the middle- and lower-income third of our population, do not contain nearly enough lean meats, fruits, and vegetables, poultry and dairy products. Some economists who favor flexible prices have suggested that the best way to get more of these products eaten is to let food prices drop. One of the ideas behind the Brannan plan for perishable foods was that if food prices became lower, people would eat more of the better-quality foods. On this point, both the economists and the Brannan plan are probably wrong. A public policy to push food prices lower (or let them flex downward or drop in a free market) would greatly reduce the income of the American farmers without much assurance that the consumers would eat significantly better. For example, the recent small decline in retail beef prices caused a large decline in cattle prices. The slightly lower retail prices undoubtedly resulted in the sale of more beef but less of other foods. Meanwhile, the marketing margin, inflexible in cents per pound, was taking a much bigger share of the retail meat dollar. Consumers did not gain much; producers lost tremendously.

Even those consumers who found their accustomed food order costing slightly less, almost certainly spent the saving, not on more or better food, but on increased purchases of nonfood items. Something more impressive than price changes is needed before the American people will eat the way the nutritionists and the American farmers want them to eat. Action programs in scope beyond anything we have yet seen, even during the food-stamp days of the depression, are needed. Wider use of school lunches, in-plant feeding for American industry, food distribution schemes for low-income people and those on relief, a tremendous increase in educational programs both among children and adults—all these are needed. Foreign as well as American consumers should be the target of this great campaign to eat better. If food habits are not as good as they should be here at home, in most countries of the world they are far worse. Improvement of the diet of the people of the free world is a long-range attack on the forces that will continue to threaten America regardless of whether or not the present threat of Soviet imperialism is halted.

Too many people dismiss ideas such as this one with superficial observations that "all they will produce is more babies." Our foodstuffs can be employed in foreign aid and development programs in such a way that the population dilemma of the underdeveloped nations can be solved. That entire problem is a complicated subject that cannot be covered in this statement, but I shall summerize it briefly: whenever America's food is directed specifically toward students and vocational trainees in such countries, the ultimate effect will be greater agricultural and industrial productivity, higher levels of living, greater urbanization, and the resultant reduction in birth rates to the place where a proper balance between people and resources can be achieved.

The consumption problem, then, needs considerably more attention at the national and international level, additional action programs, more governmental assistance—not less. But unless it is solved, the problem of American agricultural prices and surpluses cannot be solved.

PRICE PROGRAMS ARE NOT HELPING SOLVE THE LOW-INCOME-FARMER PROBLEM

The second great problem that must be met by methods other than support programs is that of the low-income farmers. Almost a third of our 5.3 million farm families are working uneconomic units and earning so little that their level of living is below the acceptable American standard of decency. Their problems can be solved, but here again, vigorous action programs, to a great extent by governmental agencies, will be necessary. Some of these farmers are on units that can never be made adequate; some of them do not have the education or skill or temperament to farm successfully—these should be assisted in moving into other employment—and the opportunities for this other employment may in many cases have to be brought into areas where underemployed human resources are located. A satisfactory national full-employment program must take responsibility for such industrial expansion. The experience of TVA and many war plants which were built in the South bears out the fact that whereas poor farmers cannot be forced out of farming by depression or price squeezes, they can often be attracted out by the chance to earn a decent living in nearby industry. Furthermore a great many of the remaining low-income farmers can be helped to improve their farming and increase their income, either through consolidation of inadequate units into adequate units, or through more intensive farming enterprises such as livestock, fruit, vegetable, dairy, or poultry production. The help in this case will very often need to be help through governmental agencies. There needs to be more educational and farm-management assistance, more supervision in some cases, more credit at low interest rates, better marketing facilities. Even the supervised credit will have to be supplied in considerable part by public agencies because private enterprise cannot afford to do the job properly among people who are not very good credit risks. Of course after these farmers are on the road up, their need for the public assistance will eventually disappear. Heartening experiences of this type, by the hundreds of thousands, make up the history of the Farmers' Home Administration-Farm Security Administration.

AFTER THOSE PROBLEMS ARE ATTACKED WE CAN TINKER WITH PRICE SUPPORTS

If these two great problems can be met, improvement of the American diet (and that of other peoples in the free world) and proper use of underemployed manpower now piling up on America's low-income farms, then there is a good chance for any one of several price or income support policies for American farmers to succeed. And what will that price policy be, fixed parity price support, two-price plans, flexible parity price support, or income support?

Fixed supports

Fixed price supports induce farmers to produce more and more of a crop. Famers like to produce things upon whose price they can depend—price guaranties take one of the great economic question marks out of a farmer's life and let him concentrate on the technical business of producing. Under fixed price supports we ordinarily do not have production troubles. We have distribution troubles, however, if consumer incomes do not keep on expanding while production expands. Under the fixed-price-support standard, if the farmer cannot sell his commodity in the market for a reasonable price, the Government stands ready to buy it or lend him money on it at some fixed proportion of parity. In times when consumers are not able to buy at 90 percent of parity or above, large quantities of the crop will be sold to the Government. The Government stock then gets quite large, and the farmers are asked to vote on setting up restrictions on their own production. In the great majority of such instances, the farmers have voted restrictions on themselves, preferring a supported price over taking a chance on an unsupported market.

The arguments usually heard against the fixed-support idea are: (1) that inefficiency is rewarded, and (2) the farmer is regimented by a bunch of bureaucrats.

Fixed-price supports have not made agriculture inefficient

The argument that fixed price supports promote inefficiency is wrong on two counts. First, it is quite certain that the existence of a dependable price has enabled agriculture to become more efficient than it would have become under an unsupported system. Second, even where inefficiency exists, it is not important in a price-determining sense or relative to other inefficiencies condoned in the American system.

There are good reasons to believe that fixed-price supports have actually helped to lower food costs relative to other prices in the past 20 years. They are considerably lower, as a share of the consumer's dollar, than they were 20 years ago. The price stability which fixed supports guarantee made it possible for farmers to adopt the newest methods, experiment with new techniques, borrow money, and make heavy outlays for new capital equipment—all of which would have been risky under uncertain market conditions. A large portion of the benefits of this increased efficiency is undoubtedly passed on to consumers, though not the entire amount of it, we must admit.

Of course, there is some inefficiency in American farming, just as there is everywhere else in our economy. Under a fixed-price system, or any other type of price support, the inefficient just barely get by and the big profits are made by the most efficient. Undoubtedly some extremely efficient big farm operators get rich. A fixed-price-support program probably enables them to get rich a little bit faster than an unsupported system would, but even that is something that economics cannot prove. There are several ways to attack the welfare problem of income distribution in our society, but it is fairly certain that an across-the-board reduction in agricultural income through price reductions is not the correct way, particularly when incomes of most farmers are not yet adequate in comparison with those of city workers.

In this connection, it must be recognized that the American economic system does not have as its main goal the enforcement of efficiency above all other human and social values. In the industrial-commercial system, inefficiency is to a great extent protected by patents, trade-marks, tariffs, labor unions, trade associations, fair-trade laws, and all the other institutional and legal arrangements by which completely free and cutthroat competition is prevented. This is not to imply that patents, etc., are bad. The American people recognize that a number of things are just as important as efficiency in our system, and that some of these even improve efficiency in the long run: Security, stability, property rights, labor rights, the luxury of advertising, and many other things the economist might view as economic waste.

Fixed supports do not mean regimentation

As to the regimentation argument, farmers have apparently carefully balanced their freedom under one real system with their freedom under another hypothetical system and have concluded that the freedoms they have enjoyed under crop production and marketing controls are more valuable than the freedoms they would have under an unsupported price system. Under the supported system, one very significant freedom the farmers enjoy is the freedom to plan their production and their family expenditures for a number of years in advance, knowing that violent price drops will not wreck their plans for a decent home, farm improvements, education for their children, and secure provision for old age. Of course, they have suffered a slight loss of certain other types of freedom, such as the freedom to plant their entire acreage to wheat or cotton. However, farmers have participated as members in the restriction program, and it is fairly evident that they consider the Government's role that of a partner in the "businesslike" undertaking of keeping production adjusted down to consumption. ("Businesslike" as used here refers to restrictionist practices such as commercial firms typically employ to hold prices up and cut production. As indicated elsewhere, I do not think agriculture should adjust downward.)

To conclude this section on fixed-price supports, then, I should like to say that if we attack the consumption problem and the low-income farm problem, the cost of fixed-price supports can be kept down to limits quite reasonable for a program so important to our Nation's welfare, production efficiency will continue to improve, and farmers will continue to be free.

The flexible price-support plan with a floor of 75 percent in the flexing would operate very much the same as a fixed-support standard, with some of the same advantages, disadvantages, and problems. Fixed-price supports in the past, primarily because no adequate consumption expansion plans were undertaken, have led to storage problems and surpluses. Some economists, particularly those who abhor action programs aimed at consumption expansion as something New Dealish, welfare-stateish, have decided that more flexibility in the support level was needed. If the amount of commodity appeared to be soaring upward to the place when storage would burden us, the Government would announce that the price support for the succeeding crop would be pushed downward to discourage production. Even the proponents of the flexible scheme fear a completely free price; they usually suggest limits to the downward movement of the support level at somewhere between 60 and 75 percent of parity for important crops.

The logic of the flexible plan is based mainly upon the assumption that price is the proper regulator of our economic activities, and that prices freely moving will regulate them correctly. No economist has yet proved that farmers will make the response to price flexibility that the proponents of the plan seem to think they will make. In fact, there is good evidence to prove that most farmers willl not. Much of a farmer's costs are fixed, and much of his enterprize has large amounts of sunk investment, in specialized equipment and skills, which demand that he keep right on producing the same things even though prices threaten to fall. The lowest income farmer often is prevented from making the shifts the economists seem to want him to make by lack of proper knowledge, lack of proper capital, equipment or credit, or many other reasons. The largest and most efficient farm enterprises often have specialized investments, and would lose more money if they shifted than they would at a somewhat lower price support. The middle-income family-type farm would probably be the place where any significant amount of shifting would take place in times of overproduction of some particular crop. There is grave doubt that the upsetting effect of price-support flexing, even in a limited range betwen 75 to 90 percent of parity, is justified. There is doubt that it would result in enough shifting to cure the overproduction situation. Finally, there would probably need to be almost as much production restriction voted by the farmers at 75 percent of parity as at 90 percent—75 percent is still a pretty reliable basis for planning.

Regimentation is possible, however, if we persist in downward adjustment

The controls farmers have subjected themselves to in the past have not weighed too heavily upon them. The acreage adjustments were so minor that new production techniques and methods managed to keep ahead of them. In the future, however, we probably face really drastic production adjustments, particularly in wheat and cotton, if our Nation adopts the policy of downward adjustment of production rather than upward expansion of consumption. In this event, either with fixed price support or with flexible price support at its minimum politically acceptable level of 75 percent, production will have to be cut much more drastically than we have ever yet tried. A reduction of 50 percent or more in acreage devoted to wheat and cotton is a distinct possibility, this in a period when alternative income possibilities will be difficult to find. This direction of affairs would produce regimentation, but the blame would have to be placed not on the idea of price supports as such, but on a major failure of the operation of the American economic system.

INCOME SUPPORTS—THE BRANNAN IDEA

Many people have proposed income-support plans as a method of avoiding some of the pitfalls of both fixed supports and flexible supports. The idea here is that farmers should sell their products in a completely unsupported market. Almost everybody agrees that for some years at least, until population grows considerably, this would result in low prices for some farm commodities. But then the farmer would get a check from the Government at the end of the marketing year which would make up part of the difference between the average farm price and parity. The arguments for this plan always emphasize that the Government would not have to be in the loan, purchase, or storage business, and that consumers would get their food cheaper and therefore would eat more and better-quality foods. The arguments against it usually point out that a considerable amount of snooping into the individual farmer's income and expense records would inevitably be necessary, to avoid cheating. Also, on the negative side is the point mentioned earlier, that merely to allow food prices to drop would probably not materially increase the amount or quality of food Americans eat—the savings on the weekly food basket would in all likelihood become the downpayment for a television set or an air conditioner. Not the least of the arguments against such a plan is the fact that if the idea has merit, it also has merit for all the industries and groups protected by tariffs, trade-marks, patents, fair-trade laws, labor unions, medical associations, trade associations, etc. In other words, why not abolish all these aforementioned protections and see what a free market would set in the way of prices. If the watchmakers and oil companies and doctors and workingmen and steamship companies didn't get enough money, they could present a bill to Congress at the end of the year and get the difference between what they made and 80 or 90 percent of parity.

The income subsidy would get the farmer blamed for an American failure

My major criticism of the income-subsidy idea is on a different level from these, however. I think the acceptance of the income-subsidy idea would be a great tactical mistake on the part of American farmers. It would induce the taxpayer to believe, when he paid the subsidy bill once a year, that the farmer was solely to blame for an expensive program. The truth of the matter is that the American economic system is not operating properly when food is produced but not distributed to hungry people at home and abroad. This is not the fault of the farmer. The farmer is fulfilling his part, a technological part, in producing more and ever more of the things for which there is a clearly demonstrable human need, food and fiber. The part of the American economy and the American Government is to discover how to get those products where they are needed. The cost of such a program should properly be borne by society generally.

PRICE INSURANCE—TWO-PRICE SCHEMES

Two more variations on these themes are now being prominently discussed, the price insurance schemes and the two-price schemes. The price-insurance scheme would collect premiums from all farmers so that they would have a reserve which belonged to them to support price (by any one of the schemes already described), so they wouldn't feel they were running to the Government for help. My rather lengthy objections here can be summarized in two cryptic sentences: (1) Let's not make an already complicated subject more complicated with individual insurance records, and (2) let's acknowledge that the American Government and the American people are the same, and that farmers pay taxes too.

The two-price scheme proposes to support at a high level the portion of crop used in "normal" consumption, and let the surplus portion be sold for what the market will bring in inferior uses. All the crop going into the inferior uses would be turned over to some central marketing agency, to prevent the surplus depressing the domestic price. The surpluses would be exported or in some cases, such as wheat, turned into animal feed or industrial alcohol. Farmers would receive a "blended" price, composed of the high-support price for their pro rata share of the total going to domestic uses and the lower price of the share going to the inferior uses. As the blended price dropped, reflecting a continued "overproduction," the farmer would be expected to curtail production or shift to some other enterprise, following the same logic as under the flexible support plan, that a lower price should induce a farmer to produce less. Just as I do not think these assumptions are valid for the flexible plan, I do not believe they would bring about the proper adjustments in a two-price plan; but the latter offers two other grave disadvantages: (1) it is badly concealed international dumping and would provoke retaliation, and (2) feeding of good human food to livestock makes no sense in the critical world today.

SUMMARY

If these hastily sketched ideas are reasonable, I should like to submit that agricultural policy of the past decade is headed pretty well in a correct direction, but needs to be improved and implemented on an even broader scale of domestic and world welfare. The various Government programs outlined earlier, which have added to agriculture's power to make progress and to face other power groups in our economy, all need to be brought up to date. Many of these programs need to be expanded; loans and supervision to low-income farmers to improve their economic efficiency, or to move into other employment, should be given high priority. Dramatic development programs for power, industry, and recreation area in the districts of underemployed low-income farm people should be set up. Projects similar to the TVA or the proposed Missouri Valley development program must be financed by Government if private industry does not show a much more optimistic attitude toward America's expanding future than it has ever showed heretofore. Far-reaching programs to improve diets will demand Government action. Revolutions in farm management practices must take place on half of America's farms, or even more. Local participation in all these programs is necessary, but a considerable amount of Federal planning and assistance will be needed. If these far-reaching programs are reasonably successful, whatever price or income support we adopt will be reasonably successful also. My hope is that the support programs we presently have can be improved and extended, and that the entire agricultural adjustment program can be more closely knit together.

For example, we could insure that loans or benefit payments go only to those farmers who make a reasonable effort to make the proper adjustments in their management schemes. It is my opinion that far more effective "shifting" will take place under such direct methods than under the hypothetical "guidance" of a flexible price system.

Finally, all the really important farm products should be covered by some sort of price or income guaranty. I would be surprised, however, if farmers should be willing to agree to price or income supports at much below 90 percent of parity on the assumption that farmers should be squeezed into acting like "economic men," and should adjust their production to some economists' ideas of "normality." A more realistic norm in this dynamic time would be the norm of expansion, controlled upward movement. The mixed privately and publicly directed production system in America works best when it is upward looking. The so-called surpluses proved not to be surplus in recent emergency periods. If America can continue dramatically expansionist in peacetime, it can afford occasional "surpluses." The political capital recently made from a relatively few rotten potatoes should not frighten us. In a nation as rich as ours, where a great deal of waste is condoned, planned surpluses can be an almost waste-free gamble for progress. If we have surpluses, we will probably find the sense to use them properly; if we avoid them, we will never have the chance.

Frankly, I see no possible way for American agriculture to make any sizable adjustment downward without admitting that the entire American experiment in enlightened capitalism is a complete failure. Frankly, I see no reason for American agriculturalists being forced to make any sizable adjustment downward—they know that their products are needed by human begins both here and throughout the world. The problem looks fairly simple to them—do something to adjust the crazy out-of-kilter economic system which lets their food and cotton lie idle while people need it. Do something in peacetime which accomplishes much the same effect as far as full employment, full production, and adequate distribution are concerned, that was accomplished in wartime, but without the killing. And if we can do that, we can aid materially in helping build a world where the killing might not be as necessary.

To take the course I have suggested would mean profound, dramatic action on the part of Government—things which would cost money, require expansion of some Government activities, might bring about increased budgetary deficits for a time—in short, many of the things that campaign pledges promised to change. But unless these things are done, I have no great amount of hope that the current retreat in agricultural income will not lead to a genuine depression in agriculture. An agricultural depression could go on for some years even while the rest of the American economy was stable or advancing, but the danger signs from the industrial front are disturbing also. In my opinion, the present situation clearly calls for governmental action programs to expand consumption, both for agricultural products and for the products of industry generally. This will probably require intentional unbalancing of the national budget—(I believe a rather large unintentional unbalancing will take place as a result of reduced income-tax collections in 1954 and 1955)—intentional unbalancing is called for to finance on the agricultural side consumption expansion programs, at home and abroad—on the industrial side great programs of public works.

The sum total of these suggestions is that a complete and sensible program for American agriculture is part of a complete and sensible program for the American economy as a whole. Our economy, and our agriculture, perform most brilliantly when expanding, when moving upward, when striking out ahead of the cautious cartographers who prefer to chart its course only in light of the past, who want to adjust supply downward to historical records of "demand." To attempt to press America's productive genius backward and downward would be painful, even if it made sense. In our world today, the better sense demands that we allow it free reign, and make the adjustments necessary in our laws, our business, our ways of thinking.

Chairman Wolcott. On the question of the relation of agricultural policy to foreign economic policy, Lawrence Witt, professor of agricultural economics, Michigan State College.

STATEMENT OF LAWRENCE W. WITT, PROFESSOR OF AGRICULTURAL ECONOMICS, MICHIGAN STATE COLLEGE

Mr. WITT. Thank you, Mr. Wolcott.

As I direct my remarks to the relation of agricultural policy and foreign economic policy I should like to recall a few characteristics of our agricultural situation. Farm production has expanded by 35 percent since 1939 while total population has risen by only 22 percent. Some of this difference of 13 percent has been used to better clothe and feed our population, as greater employment and income provided higher levels of living. But the greatest change occurred in exports. By 1951 the physical volume of farm exports had increased to nearly 3 times and the value to 6 times the low levels of 1938–40. I have a table here, table 1.

The export market is an important market for farm products, particularly for wheat, cotton, and rice with a third or more of production being exported in recent years (see table 2). Exports are around 25 percent of production for tobacco and dried fruits.

Examination of this market more closely shows that over half of the agricultural exports from 1941 to 1951 were financed by foreign-assistance programs, beginning with lend-lease and continuing through the ECA program (see table 1). In the table which I have attached, you can see that during this period it reached a point where as much as 78 percent of our exports were financed by aid programs, whereas in 1952–53, exports under aid programs dropped down to 12 percent.

With the economic recovery of Western Europe and the increase in the production of their farms and factories, the economic-aid programs have been reduced in size and scope and now almost eliminated. Concurrently, United States agricultural exports in 1952–53 dropped 30 percent below 1951–52. This decline is an important contributing factor to the drop in farm prices and to the increase in the holdings of the Commodity Credit Corporation. For example, if wheat and cotton exports in 1952–53 had been at 1947–51 levels, 107 million more bushels of wheat and 1,649,000 more bales of cotton would have been sold rather than held by the Commodity Credit Corporation. I have a table indicating some of these figures.

On the domestic side, a recent estimate by Elmer Working of the University of Illinois indicates that if 1950 farm exports had been at the 1940 level (2.3 percent instead of 9.9 percent of production), the additional supplies in the home market would have forced retail prices down about 30 percent (in the absence of price supports). This is another way of indicating how important the export market is to American agriculture. A reduction in overseas outlets means adjustments are needed at home.

(Tables 1, 2, and 3 submitted by Mr. Witt follow:)

TABLE 1.—*Value of United States agricultural exports commercial and aid programs*

Year	Agricultural exports (billions)	Aid programs		Percentage under aid programs
		Amounts (billions)	Major program	
938-39	$0.7			
1939-40	.7			
1940-41	.3			
1941-42	1.0	$0.7	Lend-lease	70
1942-43	1.5	1.2	do	80
1943-44	2.3	1.8	do	78
1944-45	2.1	1.6	do	76
1945-46	2.8	1.4	Lend-lease, UNRRA	50
1946-47	3.6	.8	UNRRA, Army civilian	22
1947-48	3.5	1.6	Interim aid, Army civilian	46
1948-49	3.8	2.3	ECA, Army civilian	60
1949-50	3.2	2 0	ECA	62
1950-51	3.4	1.2	do	35
1951-52	4.0	.7	do	17
1952-53	2.9	.4	do	12

Source: 1941-49: Lawrence Witt, Agriculture, Trade and Reciprocal Trade Agreements, technical bulletin 220, Michigan Agricultural Experiment Station, June 1950. 1950-53: Foreign Agricultural Situation Maps and Charts, Foreign Agriculutral Service, October 1953.

TABLE 2.—*Percent exports are of United States production for respective crops (indicated years)*

	1935-39	1948-51	1952
Wheat	8	35	24
Cotton	43	38	22
Tobacco	33	26	19
Rice	16	46	55
Prunes	38	39	28
Raisins	27	28	38

Source: Foreign Agricultural Outlook Charts, Office of Foreign Agricultural Relations, USDA, 1951-52. Foreign Agricultural Situation, Office of Foreign Agricultural Relations, USDA, 1952. Foreign Agricultural Situation, Foreign Agriculture Service, USDA, 1953.

TABLE 3.—*Decline in agricultural exports—1947-51 average with 1952-53*

Commodity	1947-51 average	1952-53	Decrease	
			Amount	Percent
Cotton (1,000 bales)	4,893	3,244	1,649	34
Milk, evaporated (1,000 pounds)	250,208	116,945	133,263	53
Cheese (1,000 pounds)	81,875	3,572	78,303	96
Wheat grain (1,000 bushels)	430,588	323,543	107,045	25
Flue-cured tobacco (1,000 pounds)	380,055	368,251	11,804	3
Eggs and egg products (1,000 pounds)	40,260	5,011	35,249	88
Rice (1,000 pounds)	1,064,857	1,438,020	[1] +363,163	[1] +34

[1] Increase.

Source: Foreign Agricultural Trade fiscal year 1952-53, USDA, December 1953.

Much effort has been devoted to increase farm production to better meet critical war and postwar needs. This increased productivity of American farmers cannot easily be reversed. In efforts to maintain farm income with declining markets, acreage allotments and marketing controls have been applied. Many are wondering if these can hold productivity in check. And we know that additional advances in the production possibilities can be expected and are in fact in sight. Many of our farmers are concerned that even with difficult problems of adjusting farm operations, farm incomes appear to be declining and have declined. International frictions develop when the United States tries to reduce food production while other people are poorly fed.

We have learned a great deal about how to increase our ability to produce food and fiber. If reductions in incomes and serious adjustment problems are to be avoided we now need to learn better how to increase our ability to consume these products.

There are three principal ways by which consumption can be increased. My statement is primarily concerned with the first of these, namely means of selling more in the international market and thus reversing the trend of the past 2 years. The second way is by increasing the willingness of United States consumers to buy agricultural products as food, as feed, or as industrial raw materials, perhaps through some price reductions. Also important is the encouragement of production shifts among agriculture products. You might be interested, for example, that our Michigan farmers have doubled their acreage in wheat in the last 10 years as a result of the relatively favorable prices of wheat compared to other products.

The third way is by increasing incomes through economic growth and development, particularly for that fraction of the population now consuming relatively small amounts of food and fiber because of their low incomes, a point touched on by other members of the panel. This has the effect of adding new consumers of farm and industrial products to the market, a fact of considerable importance when the outlook is for a decline in economic activity. It would be preferable to stimulate consumption by increasing incomes through higher individual productivity—although some suggest food or income subsidies.

This then is the background against which I wish to discuss the agricultural outlook and foreign economic policy. In my opinion it is necessary to take substantial action in each of these areas if the expanded production capabilities of our farmers are to move fully into consumption rather than into Government stockpiles. No one of them alone offers sufficient hope of disposing of all the increased farm production beyond that which is needed by our growing population.

Domestic agricultural policy has aimed at improving farm incomes by the specific technique of support prices at 90 percent of parity for storable and semistorable commodities. Other methods to accomplish the same purpose have been suggested in the past but have been rejected by Congress. The continued use of support prices has led to serious international complications. American farm prices have frequently been and are now above the world level. This discourages export sales unless special buying arrangements are provided such as ECA or export subsidies. High domestic prices lead foreign exporters to sell farm products in our market which would normally not come to our shores. To protect the Government investment and prevent illogical shipments from other countries of surplus farm commodities, quotas and embargoes have been established against inshipments of wheat, cotton, cheese, beef cattle, butter, and other fats and oils. The result is a patchwork of policies to which the foreign leaders point as excuses for not adjusting their own trade policies.

Moreover agriculture itself with its vital interest in foreign trade, loses whenever pressure is removed from other countries to liberalize their restrictions against trade. In this instance at least, foreign policy is part and parcel of domestic policy. The two cannot be dissociated.

Encouragement of larger farm exports requires effort in several directions in the present world of tariffs, exchange controls, quotas, and many other trade restrictions. The foreign importer must have a domestic market which will repay his costs; the price must be in line with his probable selling price; and his Government must be willing to make the dollars available. There is little difficulty about the need in the internal market in many parts of the world. Artificial prices, however, do turn traders to other products or other producing areas. Lower prices, if dissociated from the concept of export dumping, do encourage exports.

Export subsidies may encourage sales for a time, but are unlikely to do so as a permanent program. There are three reasons for this. One involves the objections from voters here at home to the long continuance of costly export programs. The second is that other suppliers of a dumped commodity in a consuming country will develop their own competing export subsidy programs. The third reason is because farmers and others in the importing country will object to products being dumped in their market and will seek trade embargoes to prevent its reoccurrence.

Dollars to pay for imports are a major problem for countries attempting to expand purchases from the United States. Unilateral Government grants by the United States must be replaced by increased purchases from abroad if potential foreign customers again are to become and remain active customers for United States farm products on the necessary scale.

Different domestic techniques for attaining the income objectives of United States farm policy need to be applied if foreign economic policy is to help attain these goals, particularly in these difficult times. An active foreign trade and an expanding domestic economy are essential if agriculture is to remain fairly prosperous in the next few years. A stable or slightly depressed general economy and a reduced foreign trade means economic trouble for American agriculture.

Chairman WOLCOTT. Thank you, Mr. Witt.

On the general subject, Mr. Oris Wells, of the Department of Agriculture, Agricultural Marketing Service.

STATEMENT OF ORIS V. WELLS, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. WELLS. Mr. Chairman, on the general subject of agricultural outlook, there are only two brief comments I care to make. First, it appears that the decline in farm prices, which started in February 1951, has been substantially halted. In fact, in the last 2 months, there has been some improvement in a number of farm prices, with an increase on the average of 4 percent in our farm price index between mid-November and mid-January.

Second, with respect to the outlook for 1954, we see no substantial reason why farm prices and farm income should average much different from 1953, providing abnormal developments in weather or in the economy as a whole do not occur.

Price support programs will continue to cushion the price effects of a large supply of some commodities. Cattle marketings will continue large, but the unsettled market and price declines of 1953 are not likely to recur.

The withdrawal of 25 million acres from wheat, cotton, and corn plantings may well reduce farmers' cash receipts for these crops, but alternative uses of diverted acres will be a partial offset.

Our wheat export prospects are somewhat less favorable than a year ago. Prospects for cotton and tobacco are somewhat better.

Chairman WOLCOTT. That is a very nice statement, Mr. Wells.

Mr. WELLS. I thought in view of the fact that you have several out-of-town experts, and our material is always available to you, Mr. Chairman, I should be brief.

Chairman WOLCOTT. It was nice and short, but perhaps not expansive enough.

You probably have submitted yourself to a lot of questioning that you would otherwise have avoided.

(The prepared statement of Mr. Wells follows:)

JOINT STATEMENT OF O. V. WELLS, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, AND N. M. KOFFSKY, ASSOCIATE CHIEF, STATISTICAL AND HISTORICAL RESEARCH BRANCH, AGRICULTURAL MARKETING SERVICE

Mr. Chairman, these are the salient features of the current agricultural situation:

In recent months, there has been a moderate and fairly general improvement in prices of agricultural commodities. The last price report of the Department showed that average prices received by farmers rose 4 percent between November 15 and January 15. Nevertheless, they still averaged some 3 percent below mid-January 1953. The recent price improvement reflects the passing of the seasonal peak in marketings from a near-record production, the heavy movement of wheat, corn, cotton, and other commodities under Government loan and other price-support programs, and some revival in the cattle market. The parity ratio—ratio of prices received to prices paid by farmers—rose from 90 in November to 92 in January. A year earlier, the ratio was 94.

Farm operators' realized net income in 1953 was 12.5 billion dollars, about one billion less than in 1952. This was about the same as farmers received in 1950, but because of higher living costs, the purchasing power was some 8 percent less. Despite increases in farmers' debts in recent years, the financial assets of agriculture as a whole on January 1, 1954, were about 50 percent larger than the total debt (including real estate debt).

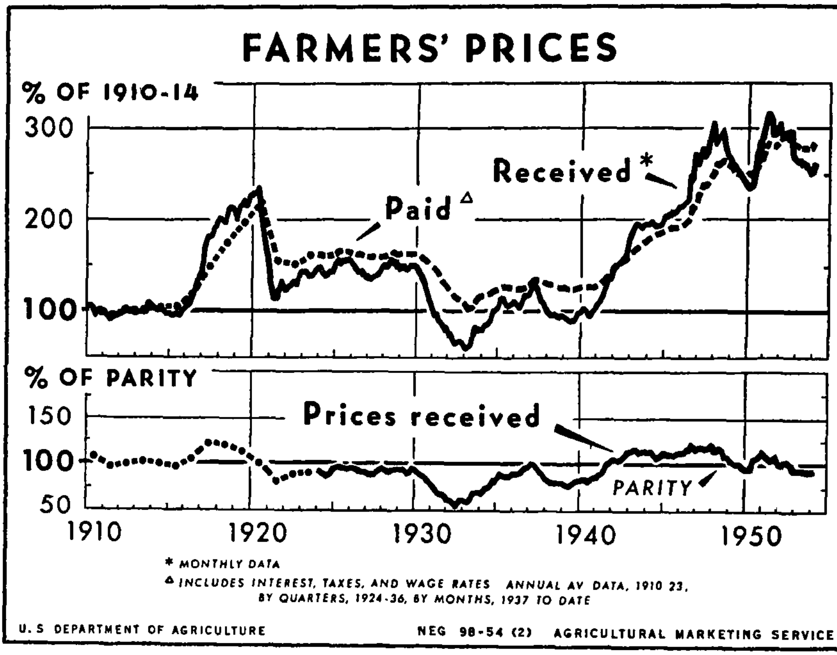
Foreign takings of United States farm products were reduced by close to a third in the year which ended June 30, 1953, as compared with the previous year. There has been no further reduction so far in the current fiscal year. In the first 5 months of fiscal 1954, the value of agricultural exports was slightly higher than in the same period of fiscal 1953.

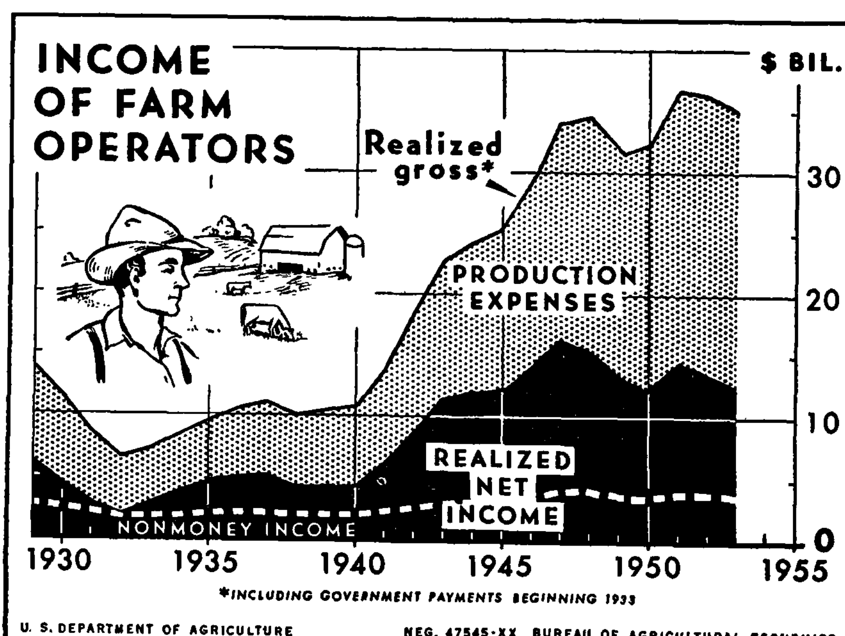
Domestic demand for food continues strong, with no significant evidence that the current business adjustment has reduced consumer purchases of food.

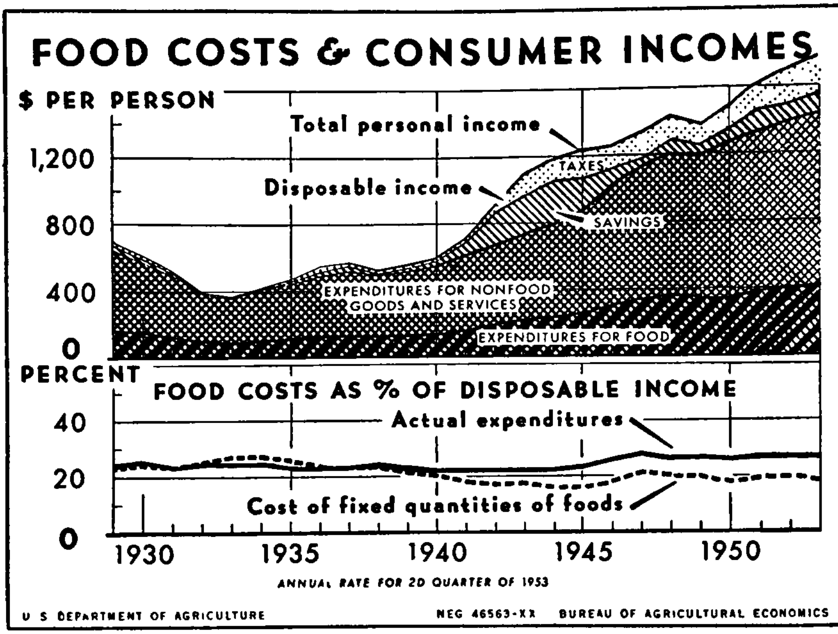
Large stocks of major farm products have been accumulated in recent years. By 1954 harvesttime, the carryovers of wheat and cotton will equal or exceed a full year's domestic requirements. Most stocks will be in the hands of, or under loans extended by, the Commodity Credit Corporation.

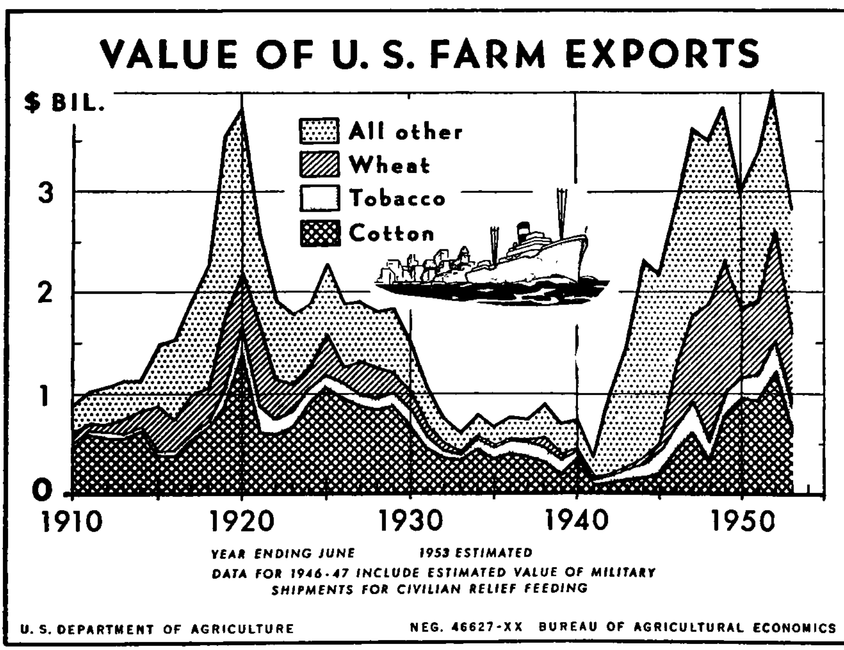
With respect to the outlook for 1954, we see no substantial reason why farm prices and farm income should average much different than in 1953, providing abnormal developments in weather or in the economy as a whole do not occur.

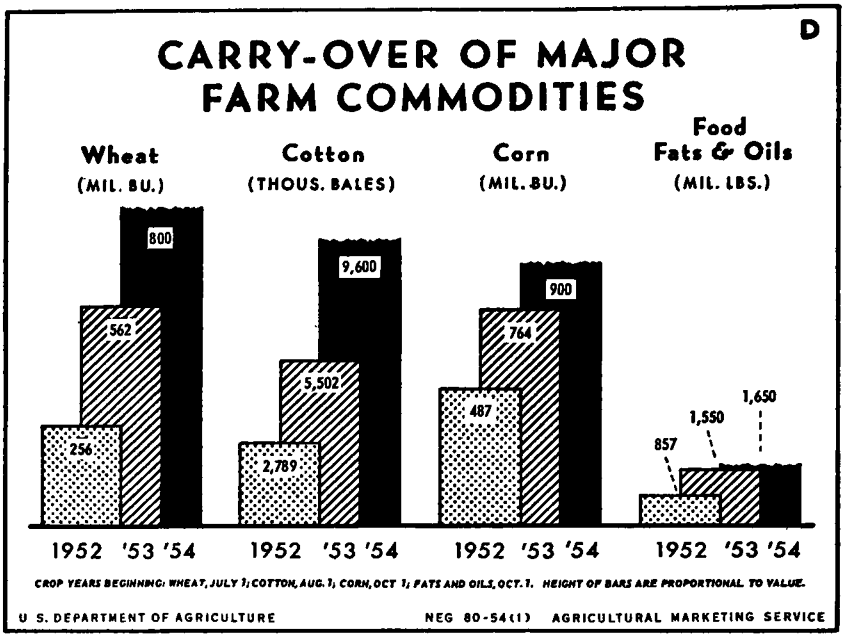
Price-support programs will continue to cushion the price effects of large supplies of some commodities. Cattle marketings will continue large but the unsettled market and price declines of 1953 are not likely to recur. The withdrawal of 25 million acres from wheat, cotton, and corn plantings may well reduce farmers' cash receipts from these crops but alternative uses of diverted acres will be a partial offset. While wheat export prospects are not as favorable as a year ago, prospects for cotton and tobacco are somewhat better.

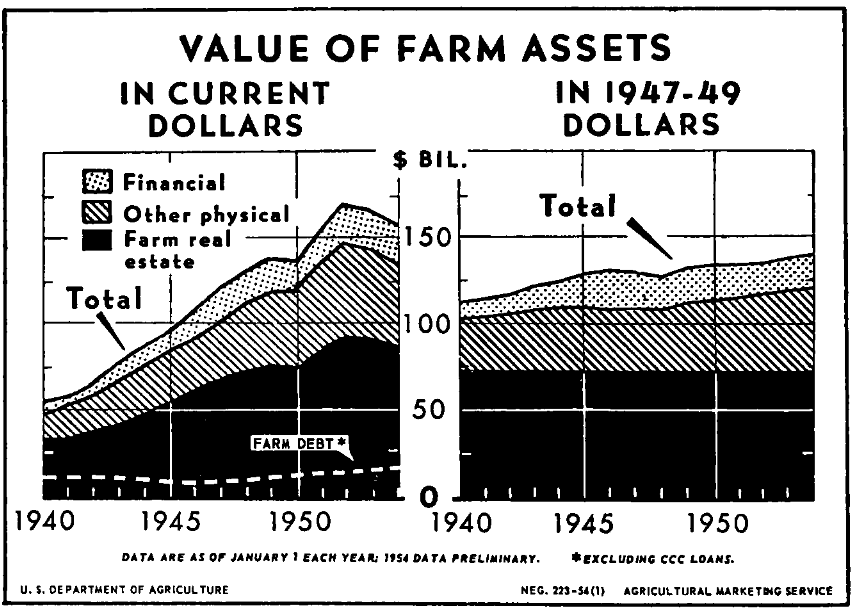





FOOD COSTS & CONSUMER INCOMES
$ PER PERSON
Total personal income
Disposable income
TAXES
SAVINGS
EXPENDITURES FOR NONFOOD GOODS AND SERVICES
EXPENDITURES FOR FOOD
1,200
800
400
0
PERCENT
FOOD COSTS AS % OF DISPOSABLE INCOME
Actual expenditures
Cost of fixed quantities of foods
40
20
0
1930
1935
1940
1945
1950
ANNUAL RATE FOR 2D QUARTER OF 1953
U S DEPARTMENT OF AGRICULTURE
NEG 46563-XX BUREAU OF AGRICULTURAL ECONOMICS


VALUE OF U. S. FARM EXPORTS
$ BIL.
All other
Wheat
Tobacco
Cotton
3
2
1
0
1910
1920
1930
1940
1950
YEAR ENDING JUNE
1953 ESTIMATED
DATA FOR 1946-47 INCLUDE ESTIMATED VALUE OF MILITARY SHIPMENTS FOR CIVILIAN RELIEF FEEDING
U. S. DEPARTMENT OF AGRICULTURE
NEG. 46627-XX BUREAU OF AGRICULTURAL ECONOMICS


D
CARRY-OVER OF MAJOR FARM COMMODITIES
Wheat
(MIL. BU.)
Cotton
(THOUS. BALES)
Corn
(MIL. BU.)
Food Fats & Oils
(MIL. LBS.)
256
562
800
2,789
5,502
9,600
487
764
900
857
1,550
1,650
1952 '53 '54
1952 '53 '54
1952 '53 '54
1952 '53 '54
CROP YEARS BEGINNING: WHEAT, JULY 1; COTTON, AUG. 1; CORN, OCT 1; FATS AND OILS, OCT. 1. HEIGHT OF BARS ARE PROPORTIONAL TO VALUE.
U. S. DEPARTMENT OF AGRICULTURE
NEG 80-54(1)
AGRICULTURAL MARKETING SERVICE


VALUE OF FARM ASSETS
IN CURRENT DOLLARS
IN 1947-49 DOLLARS
$ BIL.
Financial
Other physical
Farm real estate
Total
Total
FARM DEBT *
150
100
50
0
1940
1945
1950
1940
1945
1950
DATA ARE AS OF JANUARY 1 EACH YEAR; 1954 DATA PRELIMINARY.
*EXCLUDING CCC LOANS.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 223-54(1)
AGRICULTURAL MARKETING SERVICE

Prices received by farmers and related series, United States, by months, June 1950 to January 1954

Date	Official price indexes (index 1910–14=100)			Average prices received by farmers (15th of month)						
	Prices received by farmers	Parity index	Parity ratio	Cattle, average cost per hundredweight	Hogs, per hundredweight	Milk, wholesale, per hundredweight	Eggs, per dozen	Cotton, per pound	Wheat, per bushel	Corn, per bushel
1950										
June	249	255	98	$23.70	$18.20	$3.45	$30.1	$0.2991	$1.93	$1.36
July	261	257	102	24.40	20.90	3.60	34.3	.3305	1.99	1.44
August	267	258	103	24.20	21.70	3.80	38.0	.3695	1.97	1.44
September	274	261	105	24.60	21.30	4.05	40.4	.3998	1.94	1.44
October	268	262	102	24.20	19.20	4.29	43.2	.3880	1.90	1.37
November	276	264	105	24.60	17.80	4.48	45.8	.4097	1.94	1.37
December	289	266	109	25.20	17.80	4.56	57.7	.4005	2.02	1.45
1951										
January	301	273	110	27.10	20.00	4.68	42.6	.4101	2.09	1.54
February	313	277	113	29.10	21.90	4.68	41.4	.4174	2.21	1.60
March	311	281	111	29.80	21.20	4.55	43.7	.4200	2.12	1.60
April	312	284	110	30.30	20.60	4.37	43.2	.4253	2.14	1.62
May	306	284	108	29.70	20.40	4.26	45.2	.4245	2.11	1.64
June	300	283	106	29.50	20.90	4.20	44.7	.4202	2.08	1.62
July	294	283	104	29 00	20.50	4.32	46.6	.3911	2.05	1.63
August	291	283	103	28.90	20.90	4.47	49.6	.3460	2.05	1.65
September	292	283	103	29.20	19.80	4.69	55.0	.3372	2.07	1.65
October	297	284	105	28.40	20.20	4.93	55.6	.3610	2.10	1.64
November	303	285	106	27.50	18.10	5.18	56.5	.4072	2.19	1.61
December	306	285	107	27.30	17.60	5.20	51.1	.4015	2.22	1.68
1952										
January	299	288	104	27.20	17.30	5.15	40.5	.3845	2.20	1.68
February	293	290	101	27.50	17.10	5 11	34.7	.3688	2.18	1.65
March	290	289	100	27.50	16.60	4.91	34.0	.3600	2.20	1.65
April	292	290	101	27.70	16.40	4.62	35.2	.3680	2.18	1.68
May	291	290	100	27.80	19.20	4.43	34.2	.3602	2.13	1.70
June	290	288	101	26.20	19.40	4.38	35.7	.3802	2.06	1.73
July	292	287	102	25.60	19.70	4.59	43.3	.3702	1.98	1.73
August	294	288	102	24.60	20.60	4.78	48.2	.3792	2.04	1.73
September	288	286	101	23.20	19.00	5.06	48.7	.3911	2.09	1.71
October	281	284	99	21.40	18.50	5.28	50.3	.3677	2.07	1.53
November	275	282	98	20.30	16.60	5.31	51.9	.3405	2.13	1.45
December	268	281	95	19.00	16.10	5.10	46.6	.3171	2.12	1.50
1953										
January	268	284	94	19.70	17.80	4.84	45.8	.2979	2.10	1.48
February	264	281	94	18.80	19.30	4.62	42.0	.3019	2.05	1.43
March	264	282	94	17.80	20.20	4.40	44.7	.3152	2.10	1.46
April	259	280	92	17.30	20.70	4.11	45.5	.3145	2.08	1.46
May	263	280	94	17.50	23.10	3.92	45.9	.3173	2.06	1.49
June	257	277	93	16.00	22.70	3.90	45.7	.3151	1.88	1.46
July	260	279	93	17.30	24.20	4.06	47.7	.3187	1.87	1.47
August	255	279	91	16.30	23.60	4.18	50.2	.3279	1.86	1.48
September	257	277	93	15.80	23.80	4.43	51.4	.3309	1.92	1.50
October	249	276	90	14 70	21.30	4.61	53.2	.3246	1.94	1.34
November	249	277	90	14.70	20.00	4.72	49.7	.3181	2.00	1.33
December	254	278	91	14.80	22.80	4.58	48.5	.3073	2.01	1.41
1954										
January	259	282	92	16.00	24.60	4.38	46.3	.3005	2.03	1.42

Agricultural Marketing Service.

Chairman Wolcott. Are there questions of the panel?

Representative Patman. I would like to ask Mr. Mitchell a question on a point that he raised.

Chairman Wolcott. May I suggest that Senator Aiken is here. We are very glad to have you here Senator Aiken and we should like to have you participate in the questioning.

Representative Patman. I would be glad to yield to the gentleman if he would like.

Senator AIKEN. No. I am just a listener here.

Representative PATMAN. I think Mr. Mitchell made a very significant point about some of our farm families. Nearly one-third of the farm families are what you might call mode-of-life farmers. They are not efficient farmers. They never expected to be efficient farmers but they are important to our country.

What is your proposal for helping them? I have personally given some thought to changing the allotment plan. Instead of making the allotment on the land, make it, at least in part, to the farm family in some way. As it is now, the land that gets an allotment from year to year sometimes is worth $1,000 an acre by reason of its allotment, whereas it would be worth hardly anything if it did not have the allotment. I believe that is particularly true in tobacco.

Is there not some way that you make these allotments to the farm families? Each family would then have an opportunity to earn a decent living if the family works for it and produces enough commodities at the specified price to earn that living.

Mr. MITCHELL. Let me make sure I understand which of the segments of American agriculture you are talking about by first stating that, as I understand, you do not mean the top highly commercialized farmers——

Representative PATMAN. That is right.

Mr. MITCHELL. And you do not mean the extremely low-income poverty farmer.

Representative PATMAN. Yes, I mean them. I mean the low-income farmers.

Mr. MITCHELL. You mean the low-income farmers and the family sized middle-income group?

Representative PATMAN. I consider the low-income farmer a family-sized farmer, and of course, that overflows into the middle-income group, too.

Mr. MITCHELL. My recommendation would be that allotments—and I will have to make an exception in the case of tobacco, because there is an important thing that is happening in tobacco that might very well change the entire demand pattern until we find out definitely whether it is unhealthful to use tobacco or not—but for most of the crops grown by the family-size middle-income and low-income farmer, I have a preference for consumption expansion which will make a good market available for the products of those family-sized farms without the necessity of restricting production. If that were engaged in as a governmentally supported action program, to expand consumption, I think the acreage allotment question would become less and less important.

The population experts and the nutritional experts tell us that if the American population continues to grow, as it now appears to be growing, and if the dietary improvement in this country continues to improve, as our increasing education and better communications now appear to be making it improve, we will not have these problems of surpluses by 1975. We may, indeed, have problems of shortages, unless we can somehow speed up the level at which agricultural production research is presently operating.

Now, the main thing we are concerned about is the years between now and 1975. I think the American economy adjusts downward with very little grace. I think the American economy continues stable or adjusts upward in dramatic and encouraging fashion.

So, Congressman Patman, I am turning your question a little. I am saying that if you adopt production adjustment downward as a national policy, you are going to have all sorts of problems, including the problem of tiny acreage allotments to farmers; and the farm families, middle income and low income, will, you are quite correct, be the most badly hurt if acreages are alloted on a sheer percentage cut on an historical basis.

Let us take cotton and wheat, for example. If we do not do something dramatic about expanding consumption of cotton and wheat, I am estimating that 50 percent of the acreage in those two crops would have to be taken out in the next 10 to 15 years.

Now, if you take an across-the-board 50 percent cut, you have seriously hurt the middle income and low income families, because if we adopt that downward adjustment as America's national policy, there will not be profitable alternatives for them to go into. The low income farmers do not have the educational advantages or the capital to enable them to shift.

In case we do adopt the downward trend for American agricultural production, then I think I would agree with you, that we will have to readjust allocation of acreages and give the middle income and low income farmer a proportionately larger acreage allotment than the extremely efficient high income commercial farmer.

But let me say again, I think that is a short term and basically defeatist way to attack this problem of America's production. I think consumption expansion and adjustment upward should be our goal.

Representative PATMAN. I have reference specifically to the farm families in the cotton growing areas. If a farm family is alloted, say, 5 bales of cotton for the year, and that cotton is worth 40 cents a pound, or $200 a bale, it would mean about $1,000 to the farm family. That seems a small amount, but with other crops it would guarantee that family a decent standard of living if the family wants to work for it.

Do you not think that some system could be devised where allotments can a little better and more fairly be made by taking into consideration the family as well as the land?

Mr. MITCHELL. I think there is no doubt about it, that if we are really to face the problem of the family that is on an economic level that you have just mentioned, we have to recognize that diversification, something in addition to the $1,000 for cotton, is necessary to that family. And we have to make credit available at reasonable rates. We have to make supervision available, such as the Farm Security Administration experience proved would work, and we have to help the farmers get the main part of their income from the things that have a high value on the American market: Animal products; fruits and vegetables; the protective foods.

I would agree, certainly in the area that you came from, Representative Patman, that having a backlog of a dependable five bales of cotton for $1,000 a year would be good insurance to that party, on 20 acres.

Representative PATMAN. Of course, there would be other crops that that farmer would grow, but he would know where he was going on that particular allotment.

Thank you, Mr. Chairman.

Senator AIKEN. I was wondering, Mr. Chairman, if I might ask one question of the witness.

If you reduce the acreage of the cotton grower that is producing from 15 to 20 cents a pound and put the emphasis on the growing of the small lots, what is going to be the effect in a competitive market, and what would be the effect on consumer prices?

Mr. MITCHELL. I am afraid I will have to ask you to restate that, Senator Aiken.

Senator AIKEN. If you put emphasis on assuring the small producer of a minimum amount—we will say 5 bales of cotton—and find it necessary to reduce the acreage in those areas where cotton can be produced for approximately half price, have you not created another problem there in attempting to solve one? Are you not putting the cotton at a disadvantage with the competition of synthetics, and are you not creating a consumer problem there?

What is the answer? Until we find the answer, I want it understood, I am for giving the 2- to 5-acre cotton farmer his minimum allotment. But what is the ultimate answer?

Mr. MITCHELL. You have asked a question that has an answer in theoretical economics, and then it has a quite different answer in the real world. It has an answer in theoretical economics because theoretical economics presupposes a free-competition, laissez-faire, price-regulated system in which producers respond to price in an inverse way. In such a system, the answer to Senator Aiken's question would be to get our cotton only from the most efficient factory-type farms, and let the human problems go by the board.

I do not look to traditional economics to give us answers to real world problems, for reasons I bring out in the statement I have presented to the committee. I would prefer to look to the real world and give an example with regard to cotton and wheat, and in the real world, there is need for the production of the family-sized farm as well as the most efficient factory farm.

If we do not aim at drastic reductions of these things downward, as long as there are people who are hungry and would like to have the wheat and people who are ill-clothed and would like to have the cotton, but do not have the money to buy them at the present prices—if we aim at expanding consumption to where human needs can be met with our productive capacity, it would undoubtedly require subsidy for a while. In my opinion, it would be a good investment, because, as the agricultural distribution program, both here at home and throughout the world, progressed in coordinated agreement with a broad program of the point 4 type of development, industrial and commercial, the result in 10 years would be, not that the United States price had dropped to the world price, but that the world price had risen into much better conformity with the United States price. The world price and the United States price would be quite close together after 10 or 15 years of successful international development programs during a portion of which time America would, as part of its contribution to world peace and understanding, help subsidize the expansion of foreign markets.

In my opinion, that is the only acceptable answer. The answer is not found in dumping on foreign markets, in two price systems, or in letting the United States price drop to meet this competition of foreign cotton or synthetics on the assumption that some mythical "natural laws of supply and demand" require us to drive all farmers out of farming except the most well-heeled.

Representative TALLE. Mr. Chairman, as I listened to the paper read by Mr. Mitchell, and remembered what Mr. Bean had said earlier, it seems to me that that was a clash on one point relating to consumption. I gathered from what Mr. Bean said that he believes consumption is inelastic, and that the hoped-for progress suggested by Mr. Mitchell cannot be realized.

Will you explain, Mr. Bean, if I am correct?

Mr. BEAN. Yes. I do not think there is a clash. In my statement, I, too, point out, as Dr. Mitchell does, that we have many low income families; that in this country we have 20 percent of our people getting only 2 to 3 percent of the national income. That is the area where Dr. Mitchell, I think, and I see opportunities for increased consumption in the domestic market. Similarly, I indicated in my statement that all over the world you have this kind of maldistribution of income, and you may recall I said that to look upon 20 or 30 percent of the people of foreign countries having practically no income as commercial customers is just as unrealistic as to look upon people in this country who have no income as real customers. Until they get income or grants or jobs with income, they are only potential customers.

If you bear in mind these two simple facts, that those of us who have income will not eat any more if the price of food goes down, whereas those of us who haven't any income in this country or abroad would eat more, then I think you can square Dr. Mitchell's statement with mine.

Representative TALLE. The thing that stuck in my mind was your reference to 500 million bushels of wheat as a constant factor over a long period of time.

Mr. BEAN. Yes. But that has to do with the wheat consumption so far without any special effort that Congress might devise or that the economists might think of that would serve to increase per capita consumption.

The fact that historically we have not as a rule consumed more than 500 million bushels of wheat implies that unless you do something else to stimulate wheat consumption other than merely flexing the market price of wheat downward, you will not get any additional consumption.

Representative TALLE. Mr. Galbraith, it would help me if either now or later in your testimony you would point out the weaknesses of the 7 to 1 formula you referred to.

Mr. GALBRAITH. That is a very difficult question to answer, Mr. Chairman, and I am not going to take the committee's time to attempt to do so in detail. I do not think that there is any basic foundation for the contention at all. I think it is something that has got into circulation that is largely a figment of imagination, if I may say so.

A simple proof of the point is that in several years since World War II, we have had moderate declines in agricultural income, but at the same time we have had increasing national income. Now, I am not arguing for a moment that, and I do not think the tenor of my earlier remarks would suggest that that this is something that commends a reduction of farm income or even should cause us to view it with any equanimity. But it does refute the notion that there is a fixed relationship between farm income and national income.

Mr. BEAN. Mr. Chairman, could I throw in a word on that, if I may?

Representative TALLE. I shall be glad to have you.

Mr. BEAN. It seems to me that you can take any other segment of the economy and find a relationship between it and the total that remains fairly constant over a period of years. You can take, say, the operations of an individual firm, like Sears, Roebuck, which over the years, perhaps, gets approximately 2 percent of the farm income. Well, you would not say that because national farm income is normally 50 times as large as the sales of Sears, Roebuck, or a 50 to 1 ratio, all you need to do is to give Sears, Roebuck a certain amount of money, and you automatically will see 50 times that many dollars rolling into agriculture.

Mr. MITCHELL. I would like to add a word——

Mr. BEAN. May I also say that I do not mean to minimize the importance of the relation of agriculture to the economy as a whole, or vice versa. There is a basic interdependence, but it is not 7 to 1 or 50 to 1.

Chairman WOLCOTT. I am glad that that has been brought out, because for a good many years, I think too many Members of Congress have labored under the assumption that if we set a farm income at X amount, national income would, ipso facto, be seven times that.

Mr. MITCHELL. If there is a casual relation, Mr. Chairman, it is probably the other way around, actually.

But to be correct from the economic statistical standpoint, I think we would probably all agree that the two go up and down together. The relative speed with which they go up and down is quite important. There are some figures that I have been toying with recently, and other people have, that are not ready yet for release with the stamp of scientific approval on them. However, they indicate that a stable American economy is not good enough for agriculture, that if the American economy is going along stably, if the national income stays about the same, agriculture ordinarily is bound to drop, that the American national income must rise at some figure between 4 and 10 percent a year for agriculture even to stay level.

There have been a few years when the relationship between agriculture and the national income went counter to that general rule. But in the main, I think it is quite clear that agriculture is an industry that does very well when national income is rising; it does badly when national income levels off, and it does disastrously badly when national income drops even a little bit.

Chairman WOLCOTT. Mr. Talle, I do not want to put myself in a "holier than thou" attitude, and I did not mean to interrupt what you might have thought about this. But I was laboring under the impression, because I had only given it superficial thought until the last 30 days, that perhaps there was something to this thing referred to as the 1–1 formula, that factory income equals farm income—that is another way—and that national income is 7 times the farm income or factory income. And I was rather disillusioned when I found out that this old formula that I sold to myself and predicated farm programs upon, has been rather superficial. I think in talking with other Members of Congress that many of us until very recently had that concept.

Mr. GALBRAITH. Mr. Chairman, let me say a word on this.

One's instinct can be in the right direction without associating one's self with as rigid a formula as this. So if I may say to you, sir, it seems to me that on rating the question, you were undoubtedly concerned with an important point, namely, that a falling income for any large group, such as the farm industry, has possible repercussions to the economy at large that may be serious. Now, I agree with you completely on that. As indicated, I think, in my earlier remarks, a reduction in income of any large group in the economy is something that we should view with concern. This, however, is something different from tying our thinking to a formula of this sort, which I think grossly oversimplifies the problem, and for which it would be difficult to find any real statistical support.

Representative TALLE. Mr. Chairman, I personally have never been committed to the simple formula, but I thought this was a marvelous opportunity to learn the opinions of the distinguished panel before me, and I thank you for the enlightenment you have given me.

Mr. BEAN. We have not exhausted the subject.

Representative TALLE. We would like to have you stay longer and exhaust it.

Representative BOLLING. Mr. Chairman, I do not know that I should say that I regret to say it, but I have a number of questions which will take a little time. My first one is directed to Mr. Bean.

I call your attention to your own next-to-last paragraph of your statement, beginning on page 9 and in particular to that statement, in the last sentence, which reads:

As a matter of record, definite clues as to the improvement in the 1953 winter wheat crop, the record 1953 yield per acre of cotton and the outcome of the 1953 corn crop were contained in certain statistical investigations that I called to the attention of the Secretary of Agriculture and all the Assistant Secretaries a year ago, long in advance of the outturn of the 1953 crops.

Mr. Bean, you were employed by the Department of Agriculture for a long time, were you not, sir?

Mr. BEAN. About 30 years.

Representative BOLLING. And you left that employment sometime last year?

Mr. BEAN. Yes, in the middle of the year, voluntarily.

Representative PATMAN. Voluntarily?

Mr. BEAN. Yes; voluntarily, in quotes.

Representative BOLLING. One of the matters that has given me great concern has been the very strange situation, at least it seemed to me strange, which has developed in the last few weeks. In the President's message on agriculture, and I also believe in the Economic Report, it was indicated that the present level loan authority for the Commodity Credit Corporation of $6¾ billion should be raised to $8½ billion.

When Secretary Benson testified before this committee last week, he brought with him charts which included one which, as I saw it, was prepared in December of 1953, which indicated that the present authorization of $6¾ billion would not be quite exhausted until June of this year. Prior to his having come before us to testify, Congress had received what I gathered to be an urgent request for a remission of the debt of the Commodity Credit Corporation to the Treasury in the amount of over $700 million. And at the time, I querried the Secretary of Agriculture on this matter, pointing out in effect that there was an error in time of approximately 5 months, and in money, as I figured it out, of about $1½ billion in their estimates as to the operations under the Commodity Credit Corporation of the farm price-support program.

The Secretary did admit that this was a miscalculation.

I wondered if there is any relationship between the statements contained in this next-to-last paragraph of your statement, particularly the last sentence, and the possibility of having avoided this, I feel safe in saying, gross miscalculation.

Mr. BEAN. The purpose of that sentence was to indicate how seriously I personally feel about one portion of agricultural economics which I think has been tremendously neglected over the years, namely, our ability to foresee the impending fluctuations in crops. I have been concerned with that question for just about 30 years, and have tried to figure out how one could lick that problem.

There probably are a good dozen people in this room whom I have buttonholed on this matter over the years, including Senator Aiken and some others, to indicate that I felt seriously about it.

It is true that about a year ago, on leaving Secretary Benson's office, I felt it my duty to call his attention to the fact that there were statisical indications that the Department estimates of a very low winter-wheat crop for 1953 could turn out to be wrong, and that the crop would be over 800 million bushels instead of only 600 million bushels. Similarly, I thought that he and his associates coming into a new job might be interested in knowing that they were likely to run into trouble with cotton, because there were evidences to me—maybe to me only—that we were heading into a record yield per acre.

Now, whether or not that knowledge could have been used by the Commodity Credit Corporation to advise Congress in advance that it would need more financial facilities to handle the large corps, I would prefer to have Mr. Wells answer, because he is a member of the Commodity Credit Corporation Board, if I am not mistaken.

I assumed that the prospect of large wheat and cotton crops would affect the volume likely to go under the loan program, and that foreknowledge might be extremely helpful and as a matter of fact, it was with that intent that I gave the new members in the Department that basic information. And today my purpose is to alert you, who are concerned with the flexibilities of the economy, that we are going to continue to be baffled by volume, price, and income instability in agriculture until we seriously undertake to examine ways and means of anitcipated crop fluctuations at least a year in advance. And I personally thing it is not a fruitless search. I could give you some illustrations of what is possible if the committee wanted to take time for them.

Representative BOLLING. I would like to have the time taken, and I would like to see it tied down specifically to the matters that you have mentioned, and we can later inquire as to whether they had any effect on the need for additional funds for the Commodity Credit Corporation.

Senator AIKEN. Mr. Chairman, may I ask a question? I am getting somewhat consumed with curiosity.

Chairman WOLCOTT. Yes.

Senator AIKEN. Mr. Bean testifies that sometime, about a year ago, he advised Secretary Benson that there might be a very large winter wheat crop, which would create a little difficulty for them later on. I was wondering if Mr. Bean advised Secretary Brannan when he was fixing the acreage allotments or goals for that wheat crop that those goals might also get the Department into difficulties later on.

Mr. BEAN. Well—

Senator AIKEN. I believe you were more officially bound to Secretary Brannan than you were to Secretary Benson.

Why were such goals of that size set by Secretary Brannan in 1952, if you felt in January 1953, that the size of the crop might be such as to get the Department into difficulties?

Mr. BEAN. May I make it clear that it has never been my official responsibility to supply the Department of Agriculture with crop forecasts. I have, as I said, over the years, maintained a personal interest in the question of crop fluctuations, and I have spent many, many an hour of my own trying to solve that problem. Whether or not I passed on some hints to Mr. Brannan, I do not for the moment know. Whether or not anybody in the Department of Agriculture with whom I have talked about this possibility in recent years and to whom I have given clues from time to time, has used them in any serious way, I do not know. I strongly suspect they have not. And the purpose of my giving Mr. Benson that information was chiefly to indicate to him as a newcomer to the Department of Agriculture that here was an area of basic research which has been neglected in spite of my efforts to try to arouse interest in it, and I thought that possibly in time, he, too, might become interested in the subject.

My giving him the warning really arose from his remark that he did not think that anything could be done about long-range forecasting. That spurred me on to give him a definite example of what I thought was possible on the basis of purely statistical evidence available prior to the plantings in the fall of 1952.

I was stimulated to bring this matter before you because I read in the President's report that it is impossible to foresee the future on the basis of past statistics. And I want to register a vigorous disagreement as far as agriculture is concerned. It may be true that you cannot use past statistics to forecast business economic trends, but the statement does not apply to matters that reach back into nature, that are governed by natural laws.

There must be order there, and from the studies I have made, natural order appears to be reflected in crop fluctuations.

Representative BOLLING. I would persist in being interested in the information that was furnished and then in finding out whether if it had been given serious consideration, it might have forestalled the recent serious situation. I would like to have that information now.

Mr. BEAN. As to what it was that I turned over to the Department?

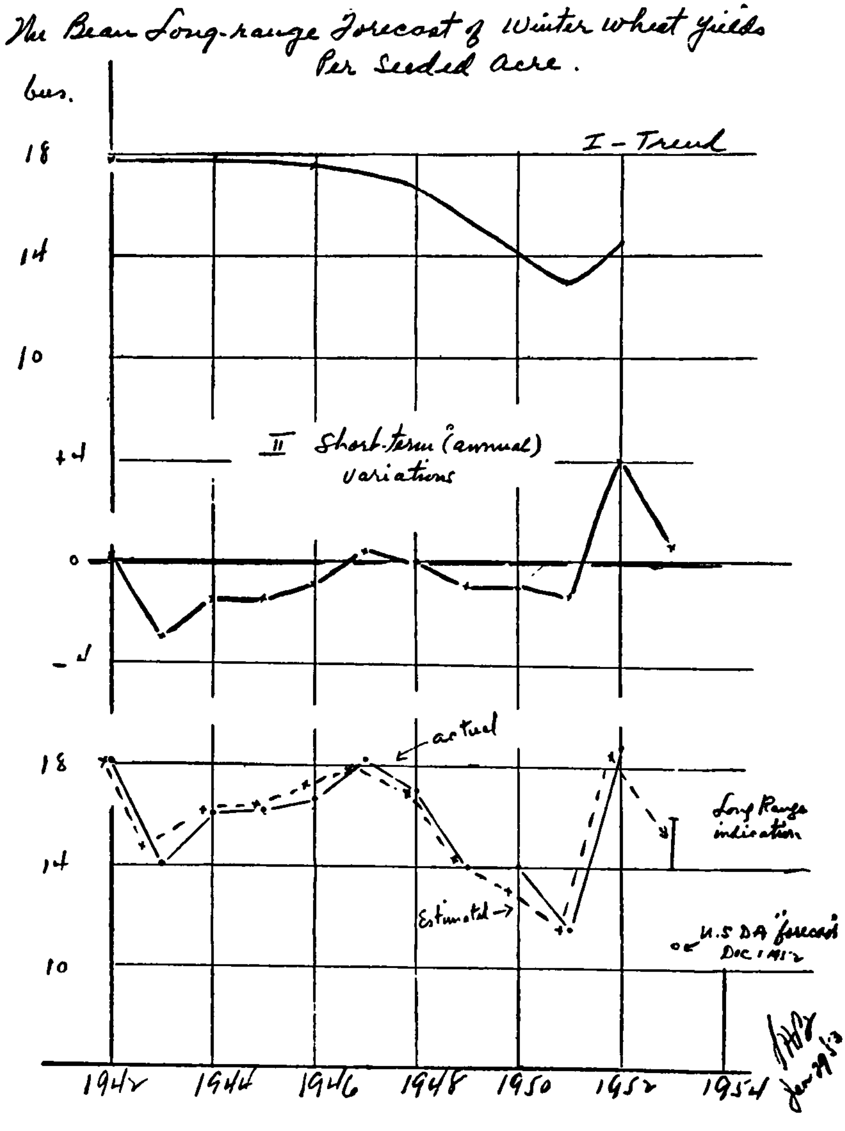
Representative BOLLING. Yes. You might do it in either order that you wish, what you turned over to the Department and then what you think can be done for the future, because what we are basically interested in is handling the matter more effectively in the future. But I think that both are pertinent.

Mr. BEAN. Since I have aroused your curiosity, I will show you a copy—I have copies if other members want to take a look at it—may I introduce this chart with a remark? Please do not take this to mean that we can today step into the field of weather and crop forecasting and bring to you immediately an indication of what next year or the year after will bring. What I want to say is that that area of research has been neglected and needs seriously to be looked into.

The example you have is an illustration of what I am driving at. From the records of winter wheat yields per acre I derive two basic factors: One, a long-time tendency which is shown in the upper part of the chart, and the other a year-to-year pattern of fluctuation that is essentially history, as shown in the middle section of the chart.

Those two series, the trend element and the annual pattern of fluctuations, based entirely on the past, when combined give you the dotted line at the bottom of the chart.

(The chart referred to follows:)



Mr. BEAN. In other words, I am taking merely past records to reconstruct what actually happened for the period 1942–52 and indicating to you that it is possible to find a historical explanation of the variations for that period.

Now, with that kind of information in hand, I said that there was an indication of a drop in the yield per acre from the high level of 1952 to a lower one in 1953. At the bottom of the chart, you will notice that I indicated that recorded history called for a drop—from 18 bushels to the acre in 1952 to a range of 14 to 16, whereas, the Department of Agriculture, a year ago, basing its judgment on the winter wheat condition of the previous December, indicated a crop of 11 bushels to the acre, or a crop of over 800 million bushels instead of only 600 million bushels.

The final official estimate for 1953 is 15.4 and the crop 874 million bushels. That is the nature of the information that I gave Mr. Benson, and I should say that he probably was justified, not knowing more about the subject than he did, in not taking this illustration too seriously at the moment.

Representative BOLLING. What about cotton?

Mr. BEAN. Cotton, I do not have in this particular form. But I will be glad to flash before you a sketch, a very rough one. I think that you will be able to see it. For the period 1937–53, going from left to right, you have two lines, the blue line representing the actual fluctuations in the yield per acre of cotton, and the red line, a reconstruction on the basis, again, of two types of statistical information, a trend element, and annual variations. Here, too, you have a very close correspondence between the fluctuations which took place from 1937 to 1953, and fluctuations which were derived from the record itself. And every one of these record yields per acre of cotton, 1937, 1942, 1944, 1948, and 1953, were indicated by this device at least a year in advance.

Representative BOLLING. Will you tell me your prediction and the actual fact of the last year, the 1953 yield? How do they correspond?

Mr. BEAN. The indication that I had here was of a record yield per acre, namely, at least 311 pounds. The official estimate of the crop during the growing period I believe started out with 282 pounds, and as the year progressed, and growing conditions improved, the crop estimates were raised, so that it wound up with an actual figure of 321, a new record.

Representative BOLLING. Are there any other crops in which you did similar estimates?

Mr. BEAN. Yes. I have similar indications of natural law operating in the case of corn, oats, Maine potatoes, the California olive crop, the Virginia apple crop, and a number of other illustrations for the United States and foreign countries.

Representative BOLLING. Is there any specific frame of reference in relation to the events of the last few weeks that I have described and the information that you made available to the Secretary?

Mr. BEAN. I would say that these two crops are the key ones, which I think fit into any question that you have with regard to the volume of CCC operations, as to whether it may have been anticipated by this kind of statistical information.

Representative BOLLING. Now, turning to Mr. Wells for the moment, what crops had the greatest impact on what the Secretary described as the miscalculation?

Mr. WELLS. Corn, cotton and wheat, Mr. Bolling.

Representative BOLLING. Would it be unfair to say that if serious attention had been given to these estimates, which apparently have not met with a very favorable reception by anybody, if serious attention had been given to these estimates earlier in the last year, the situation that developed in the first few weeks of this year would not have taken place?

Mr. WELLS. I think not. The error as I see it, was a mistake in estimating the volume, and most especially, the rate at which farmers might place these crops under loan, Mr. Bolling. The crop and livestock estimate records as of last September and October were very close to the final outturn of the crops. I mean, what Mr. Bean was doing, you see, was endeavoring to forecast a year in advance what the crops might be. But we knew last September, October and November rather accurately the size of our wheat, corn and cotton crops. As I see the Commodity Credit problem—and this is largely a personal answer—it was a miscalculation to some extent as to the volume that might move under loan, but more especially the rate at which that volume might move under loan, because we had generally expected trouble some time this spring.

For your information I should like to submit comparisons of acreage estimates and yield and production forecasts for the 1953 cotton, corn, and wheat crops.

(The table referred to follows:)

United States acreage estimates, and yield and production forecasts, 1953 crop

	Acreage		Yield per acre		Production
	Planted [1]	Harvested	Planted	Harvested	
Cotton:	*Thousands*	*Thousands*	*Pounds*	*Pounds*	*Thousand bales*
July 1	24,618				
Aug. 1			284.8	291.7	14,605
Sept. 1		23,737	295.6	306.6	15,159
Oct. 1			304.1	315.4	15,596
Nov. 1			313.8	325.4	16,093
Dec. 1	25,376	24,434	310.9	322.4	16,437
All corn:			*Bushels*	*Bushels*	*Thousand bushels*
March	81,764				
July 1	81,800	80,694	40.8	41.3	3,336,501
Aug. 1			40.7	41.3	3,330,418
Sept. 1			39.3	39.9	3,216,007
Oct. 1			39.1	39.6	3,196,101
Nov. 1			38.9	39.4	3,180,430
December	81,403	80,279	39.0	39.6	3,176,615
Winter wheat:					
December, previous year	55,361		11.0		611,141
April 1			12.9		714,154
May 1		44,526	13.2	16.4	729,884
June 1			13.9	17.3	769,884
July 1	56,559	46,105	14.5	17.8	821,372
Aug. 1			15.5	19.1	878,331
December	56,838	46.681	15.4	18.8	877,511
All spring wheat:					
March	21,600				
June 1			16.8		362,616
July 1	21,994	21,120	16.1	16.7	353,336
Aug. 1			14.8	15.4	324,498
Sept. 1			13.2	13.8	290,976
Oct. 1			13.0	13.5	284,900
December	21,903	20,927	13.3	13.9	291,025
All wheat:					
March	76,961				
June 1			14.7		1,132,500
July 1	78,553	67,225	15.0	17.5	1,174,708
Aug. 1			15.3	17.9	1,202,829
Sept. 1			14.9	17.4	1,169,307
Oct. 1			14.8	17.3	1,163,231
December	78,741	67,608	14.8	17.3	1,168,536

[1] Acres in cultivation July 1 for cotton.

Representative BOLLING. So it was a question of rate, and not volume?

Mr. WELLS. Yes. It is the rate at which these commodities are moving under loan, rather than the volume, and the chart which is in the Secretary's testimony did indicate that we would approach or reach the borrowing limit toward the end of this fiscal year. Now, that has been moved back very sharply, you see.

Representative BOLLING. It has been moved back to some time previous to this.

Mr. WELLS. Well, moved back to about the middle of January; yes.

Representative BOLLING. Yes. But what are the factors that affect rate in this field?

Mr. WELLS. We have generally assumed that the volume moving under loan would leave a free supply large enough to take care of ordinary commercial transactions and consumption, and that some movement under loan would itself stabilize the price. Now, for some reason this year, there has been a very fast movement under loan. It has come much earlier than we would have expected. Part of this difficulty, I think, traces back to the fact that in all of our budget and other estimates, Mr. Bolling, we use an average or probable estimate—

only one figure. You understand as a statistician, I would always like to state my conclusions as a range, as to what is the least that you can expect and what is the most that you can expect. But when we get into the budget procedure and presenting estimates to the Congress, where you must make appropriations and authorizations, we inevitably find ourselves reduced to a most probable estimate. Based on past performances, I personally would have told you, had you asked me several moments ago, that I thought the Commodity Credit Corporation had enough funds to run comfortably into the early spring, at least, and I have been as surprised as anyone else at the rather rapid movement in the late November, December, and January.

Representative BOLLING. And yet you had very little success in identifying the reasons for that error, I think——

Mr. WELLS. Well——

Representative BOLLING. I do not think you have answered my question, really; perhaps, it is because nobody can answer it. The question is why the rate was so different from what you had expected. The rate presumably would have something to do with the size of the crop, I suppose.

Mr. WELLS. It would have something to do with the size of the crop, and it has to do also with the confidence of the farmers in the market.

Also, I feel it has something to do with the average level of prices. We came out of World War II with farm prices at a fairly high level, and there were quite a few places, Mr. Bolling, where the crops did not go under loan where you would have expected them to go under loan. Secretary Benson pointed out to you that not only in this year, but in previous years, despite 90 percent support, corn has been selling below the loan rate—in the last 2 months at 82 percent of parity, for example, and the same is true for various other farm commodities. I am inclined to believe that as farm prices have come down, as the cost-price squeeze has cut the net incomes of farmers, they are beginning to look much more attentively at the loan and the way in which they might get their money out of the loan program, because to avail yourself of these support prices does require a number of positive actions on the part of the farmer.

Representative BOLLING. Mr. Wells, would you answer one question? Perhaps it is an unfair one, and if it is, do not answer it. As of this moment, would you think that Mr. Bean's long-range forecasts were worth looking at?

Mr. WELLS. Mr. Bolling, I have been acquainted with Mr. Bean ever since I entered the Department of Agriculture in 1929. He and I have discussed his ideas at length. I have on a number of occasions suggested to Mr. Bean that he would perform a very considerable service if he would set down the elements of his methods in fairly simple form—I am talking about "simple" scientifically—with a series of forecasts published some years in advance, and have told him that I would personally endeavor to get some journal to publish it. I have also, as a research administrator in the Department of Agriculture, at one time sponsored a joint project with Mr. Bean where we spent the better part of a year and a half or 2 years with a rather able young statistician exploring Mr. Bean's methods.

I have the highest regard for Mr. Bean. I think he is one of the ablest general-business forecasters ever employed in the Department of Agriculture. The problem I have been trying to raise with him is to set these ideas down in simple and orderly fashion so that other scientists may examine them and appraise them.

Representative BOLLING. Are you suggesting that perhaps he achieves his results by intuition?

Mr. WELLS. Let me move on to one other statement.

Representative BOLLING. All right.

Mr. WELLS. Basically, you see, Mr. Bean and I as scientists might disagree. Mr. Bean says that nature is orderly. I came through a school of science in which I spent a lot of time doing much the same thing Mr. Bean does, working chiefly on farm prices instead of crop yields. But I suspect that there is an area of statistical indeterminancy or a range even in those events controlled by natural laws. Our plant scientists, for example, have run into a series of mutations which they cannot explain. So I think that Mr. Bean and I do have a basic, scientifically different approach.

Representative BOLLING. I would like Mr. Bean——

Chairman WOLCOTT. Would you yield to Mr. Talle?

Representative BOLLING. Certainly.

Representative TALLE. Thank you.

I wanted to ask Mr. Wells, how long have you served in the Department? I know it is a long time.

Mr. WELLS. Since January 2, 1929.

Representative TALLE. And I remember some things that have happened since 1939. Now, I wanted to ask you, following up this discussion with reference to a miscalculation—and that was referred to in year, but in previous years, despite 90 percent support, corn has an earlier hearing, too—is there anything about that that is unusual, or is it the kind of thing that might occur again and has happened before?

Mr. WELLS. Congressman Talle, economists and statisticians constantly find themselves projecting things into the future which are not certain. The only thing we can always be sure is that we will be wrong to some extent some of the time. The question is how much. Now, I think in all fairness that this calculation of the probable rate at which these commodities would go under loan is off more than we would normally expect.

Representative BOLLING. Following that up, could you cite an example at any time of a miscalculation of this size either in time or amount?

Mr. WELLS. On estimated loans under the Commodity Credit Corporation, I could not, Mr. Bolling, because I am not personally familiar with those calculations. But economists and statisticians generally in calculating the probable unemployment in the postwar conversion to peacetime of 1946 created one of the classic errors of my lifetime.

Representative BOLLING. We all make miscalculations.

Mr. Bean, you wanted to say something on that, I think.

Mr. BEAN. I would like to make a few observations, if I may.

First, with regard to Mr. Wells' statement to you, that the size of the crop was known last September, October, and November. The Department of Agriculture indicated a yield per acre of 282 pounds as of August 1. The record crop developed subsequently. Insofar as the unexpected record crop had some bearing on the course of prices of cotton and insofar as price expectations affected the rate of intake by the Commodity Credit Corporation, I think you cannot dismiss what happened to the crop after August as a factor in the rate of operations of the CCC and that foreknowledge should have been helpful in anticipating the financial trouble the CCC would be in.

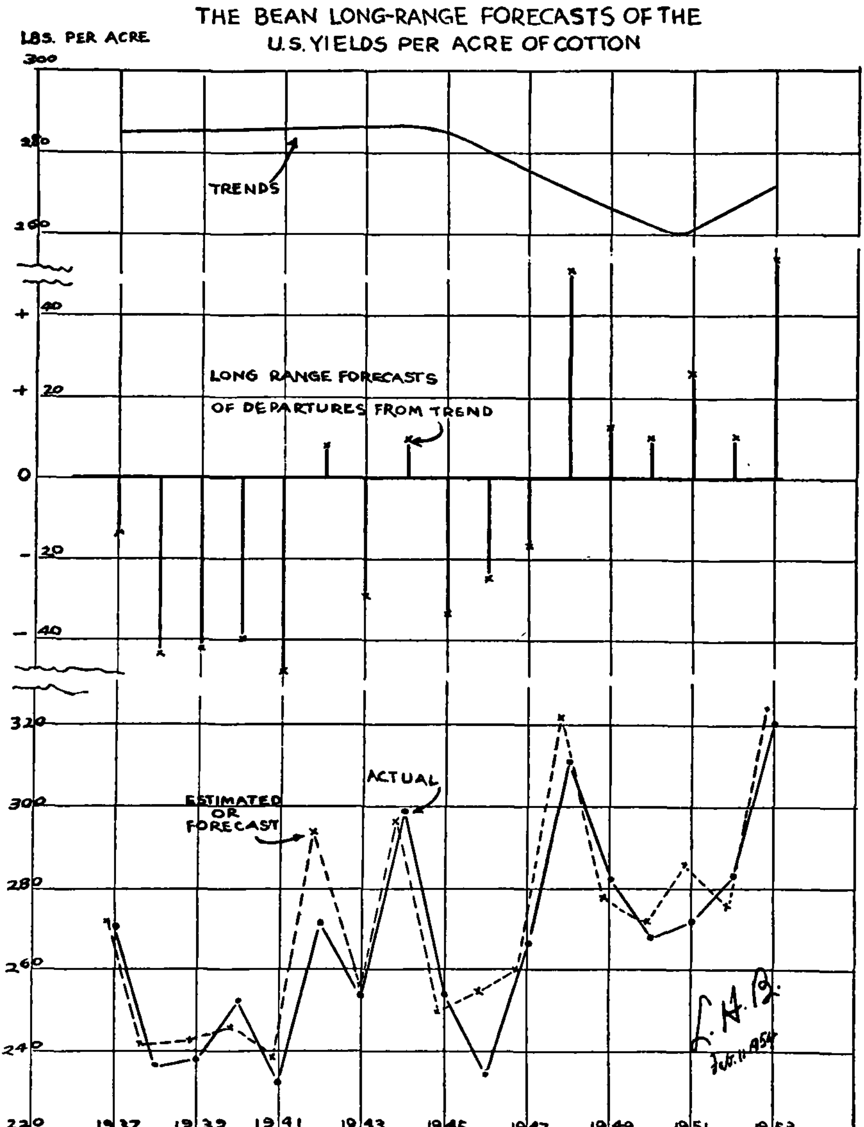
The second observation I would like to make is perhaps carrying this discussion of forecasting beyond the requirements of this committee, but I would like to leave you with a difference in point of view as to whether it is more practical to write articles in technical journals on a most controversial subject of this sort, and to wait 5 or 10 years before the scientists have picked all the bones in that article to pieces or to make the results of research immediately available for use by officials who should have those results now. A year ago I thought it was more appropriate to take the occasion—when I received a 30-day notice for 30 years of Government employment—to stick my neck out scientifically by giving new officials of the Department of Agriculture, in writing, in specific chart form, a forecast that they could put to practical use.

Now, I preferred at that juncture to serve Government officials as of a year ago, in this particular practical manner, rather than giving them scientific dissertations to be filed in journals, to be quibbled over in classrooms. I think this kind of demonstration in relation to practical affairs has more meaning, to the CCC operations, for example, than learned articles that will flow into the journals over the next 5 or 10 years.

This, however, does not mean that I have not published my ideas and my findings to stimulate others to criticize or to pursue the same lines of research. For the record I would like to point out that there was a good deal of interest on this subject 20 years ago, when Henry A. Wallace was Secretary of Agriculture. Under the scientific impulse he then gave to all of the activities of the Department of Agriculture, weather and crop forecasting was activated. The Weather Bureau, then in the Department of Agriculture, was encouraged and induced to venture making 48-hour instead of 24-hour weather forecasts. This important prod was the beginning of a series of experiments that have led to the present attempts to predict weather tendencies over a 30-day period.

The relation of weather to crop forecasting was also stimulated by Secretary Wallace, and to further that interest, he urged and approved a Department of Agriculture Miscellaneous Bulletin No. 471 entitled "Crop Yields and Weather," by Louis H. Bean, issued in February 1942, just 14 years ago, jointly by the United States Department of Agriculture and the United States Department of Commerce, cooperating. This was the first systematic, comprehensive attempt at putting long-time weather and crop-yield data together in one place. In the introduction to that statistical volume, I indicated by numerous examples the existence of "law and order" in the recorded weather and crop data—examples so simple that even busy administrators and Bureau chiefs could readily understand, including examples of forecasts made and tested.

Since 1942, I wish to record, this subject found a sympathetic ear with former Secretary of Agriculture, now Senator, Clinton P. Anderson. Had Mr. Wallace's stimulus not been dissipated after he left the Department of Agriculture and had Mr. Anderson not moved from the office of Secretary of Agriculture to a seat in the Senate, this field of research, I am sure, would have been activated. Some of Mr. Benson's present assistants, I know, think this is an important subject for research but that sympathetic attitude, as far as I know, has yet to be expressed in positive administrative and budgetary action.



Representative BOLLING. One other question in this same area, and it is directed to both Mr. Wells and Mr. Bean.

If more attention had been given to Mr. Bean's forecast, which apparently in this case, at least, is very accurate, would the storage situation today be less serious?

I do not care which one starts.

Mr. WELLS. Mr. Bolling——

Mr. BEAN. May I pass the buck to Mr. Wells, because he is related in some way to the storage operations of the CCC, and I am not.

Representative BOLLING. Certainly.

Mr. WELLS. Again, my answer is, I think not, because I am under the impression that the previous administration was very much interested in the storage situation from to time, and by May and June of this year, so was the current Administration. In other words, something more than 90 million bushels of bin capacity was added during this last summer, and at the same time the program was started to try to ensure the construction in private hands of additional storage facilities for this year's crop.

Since late last spring, there has been a consistent effort to get additional storage, because it appeared that with the average yields we were going to have difficulty.

Representative BOLLING. So in effect, preparations were made for trouble, but not for extreme trouble?

Mr. WELLS. I guess that would be a fair statement, although, as I say, starting last spring, a series of steps have been taken to substantially increase storage capacity, and they were based on the assumption of yields at least average to those of the last several years, which have been very good.

Representative BOLLING. Do you have something to say, Mr. Bean?

Mr. BEAN. No.

Representative BOLLING. I would like only to comment at this point, Mr. Chairman, realizing that this committee has no legislative responsibility, that it occurs to me that it might be a very excellent idea if we made available under letter from the chairman of this committee, to both the Committees on Agriculture this particular section of the panel discussion, because looking to the future only, without regard to the past, it seems to me fairly clear that this is an area in which substantial error has existed, and that it is an area which certainly deserves the most careful consideration, and one might even say, investigation.

Chairman WOLCOTT. Mr. Bolling, I might suggest that Senator Aiken, the chairman of the Senate Agriculture Committee, has listened very attentively to this, and I can assure you that there is a very close liaison between this committee and the House Banking and Currency Committee which will handle this problem within the next few weeks on this bill to increase the funds.

Representative BOLLING. That was exactly the reason that I made my statement in the terms that I did.

Chairman WOLCOTT. I am not going to get facetious. But you would not want me to write it?

Representative BOLLING. I believe that the problem raised here is that although we have jurisdiction in the House Banking and Currency Committee over the general loan authority of CCC, I think jurisdiction on this particular aspect of the matter falls more in the Senator's committee and the Committee on Agriculture in the House.

Chairman WOLCOTT. The Senator is chairman, on the Senate side.

Representative BOLLING. I know he is.

Chairman WOLCOTT. The Agriculture Committee there has the charter of the Commodity Credit as well as all other questions. And in the House, the jurisdiction is for some reason or other split up. We have the charter and the House Agriculture Committee has other facets of it.

Representative BOLLING. I could almost guarantee, Mr. Chairman, that when the matter comes before Banking and Currency, there will be some discussion of it.

Chairman WOLCOTT. I will guarantee that.

Representative BOLLING. But it seems to me appropriate, within our manner of operation, that we make this a matter of official note to both the Committees on Agriculture.

Now I have some other questions.

Chairman WOLCOTT. I think that point is well taken. This is a question which undoubtedly we will have to follow through on. And your suggestion that the Senate Agriculture Committee and the House Banking and Currency Committee, when we consider the bills which have been introduced to increase the funds of the Commodity Credit Corporation, might well go into it quite fully to find out what might be done about it, is a good one.

Representative BOLLING. I may renew that request in another fashion at another time.

Senator AIKEN. Mr. Chairman, before I leave, may I say that the Senate Committee on Agriculture and Forestry is not unaware of the problems which have arisen during the past 2 years, and we will devote every effort we can toward meeting those problems. We are going to need all the help we can possibly get from all sources.

One thing that would help us tremendously would be to have Mr. Bean tell us now what the yield of cotton and wheat is going to be in 1954.

Would you venture a prediction, Louis?

Mr. BEAN. If you will give me a little time and an executive session, I will be very happy to do it.

Senator AIKEN. Good. I realize you may have a professional status to protect. But if we could foresee that, it would be of very great help to us.

We have a storage problem. I do not recall any year when greater effort has been made to provide adequate storage than during the year just past. I think we achieved something of a record in that respect.

We are also aware of the fact that the farm price of wheat has gone down steadily ever since the year 1949, I believe, when we first put the rigid 90 percent supports into effect.

Now, what effect this lower farm price for wheat has had on the turnover to the Government of wheat and the demand for loans, I cannot say for sure. I presume that it has had a considerable effect.

But we will need all the help we can get, and if you can tell us what the yield of wheat and cotton is going to be this year, that will help us. At least, I will listen to it, if you have not been able to get any Secretary of Agriculture to.

Mr. BEAN. Mr. Chairman, may I make a clarifying remark. I do not think it would serve my purpose in opening up the subject to have you look upon me as having discovered all the secrets of nature and ready to step into an inquiry any moment and give you an answer with regard to next year or the year after. My interest is chiefly to see that some responsible people in Government look upon this field not as a field of merely random numbers, which is the present attitude all over the lot, whether it is in the Weather Bureau or in the Department of Agriculture or in the Council of Economic Advisers—everywhere this particular subject is looked upon as a matter of chance. And my purpose today would be served if I created an impression at least among one or two of you that this is not a field of chance, that serious attention in the way of basic research should be given to it. And while I shall be very happy to supply you with anything that I have, today, tomorrow, or any other time, that is not the point. I do not think that it is a point of Louis Bean standing before you and making a forecast for next year and you trying to recall a year from now whether or not he was right or wrong. My point is that this is a field that has been neglected, and you and others ought to be seriously concerned about opening it up in some way or other.

Representative BOLLING. I have some further questions.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. Mr. Wells, how much difference in per capita consumption of foods and fiber, in physical quantities is there between high, average and low income families? Do you have that information? Or if you do not, can you supply it?

Mr. WELLS. I do not have it with me, but I will be very glad to get the material, the last years that we have, and place it in the record at this point for you.

Representative BOLLING. I would like very much to have that and, if possible and permissible, Mr. Chairman, not only in figures but in chart form.

Chairman WOLCOTT. Is it available in chart form?

Mr. WELLS. I think so. We will make you a chart, if it is not in chart form. But whether I can get it in time for the printed record——

Chairman WOLCOTT. How long will it take to do that?

Mr. WELLS. Not very long.

Chairman WOLCOTT. Before we close the hearings, will that be all right?

Representative BOLLING. Fine.

Chairman WOLCOTT. Without objection, that will be done.

(The material referred to follows:)

The attached tables and charts give the requested information. In supplying these materials, the Home Economics Branch, Agricultural Research Service, calls attention to the following:

Both charts show the greater consumption of agricultural products by high-income families. The data on food are more suitable for estimating potential consumption in quantitative terms than are those for clothing.

The food data are drawn from a nationwide sample of urban families in 1948. These are the most recent survey data available, and we conclude that price, supply, and income have not changed enough since 1948 to result in different conclusions from those shown. Two problems in the interpretation of data from a nationwide population survey have been taken care of by adjustments in the survey data. These are the concentration of low-income families and of southern families (with somewhat different food habits) in the lower-income classes. As a result of these adjustments the table and chart come close to showing differences related to income alone. Most important for the committee's consideration are the income differences in quantities of food consumed and the fact of greater differences for some foods than others.

The clothing chart and table are more limited in application. They are derived from a survey of clothing inventories and purchases of families, limited as to size and composition, in Minneapolis and St. Paul, Minn., in 1949. Household textiles, which account for a large share of fiber consumption, were not covered. The data presented are for family expenditures because of the difficulty of summarizing (as in pounds) the great variety of garments purchased. Accordingly, the increases shown with income result from the purchase of more expensive garments as well as of more garments. Furthermore, part of the increase in expenditures among the higher-income families is accounted for by families of somewhat larger size, although the differences are less than if the survey had covered the total population. Despite these limitations, the chart and table are evidence that more fiber is consumed by high- than by low-income groups. Inspection of the detailed tables, which list the kind and number of garments purchased, support these conclusions. These are the only family purchase data for clothing for a recent date that cover the entire wardrobe and provide a classification by fiber.

Food consumption and family income—Quantities of major foods consumed at home in a week per household of 3.5 persons, by income [1]

[Urban housekeeping families of 2 or more persons in the United States, spring 1948]

Income (1947 after tax, in dollars)	Households	Milk (equivalent) [2]	Meat, poultry, fish		Fresh fruit	Fresh vegetables	Canned fruit, vegetables, and juices
			Total	Meat			
	Number	*Quarts*	*Pounds*	*Pounds*	*Pounds*	*Pounds*	*Pounds*
Under 2,000	257	13.79	9.39	6.94	10.00	9.07	6.04
2,000-2,999	410	15.71	10.37	7.92	12.22	9.49	7.61
3,000-3,999	351	17.25	11.65	9.00	12.93	10.33	8.73
4,000-4,999	167	17.31	12.12	9.02	14.20	11.68	9.24
5,000 and over	226	18.23	12.61	9.42	16.79	12.02	8.16

Income (1947 after tax, in dollars)	Potatoes, sweetpotatoes	Flour, meal, cereals, pastes	Bakery products	Sugar, sweets	Fats and oils [3]	Eggs
	Pounds	*Pounds*	*Pounds*	*Pounds*	*Pounds*	*Dozens*
Under 2,000	6.99	5.59	8.17	4.41	2.89	1.73
2,000-2,999	7.62	4.84	8.28	4.28	3.00	1.90
3,000-3,999	8.09	4.43	9.35	4.84	3.24	2.04
4,000-4,999	7.61	4.08	9.00	4.33	3.06	2.20
5,000 and over	6.02	3.45	8.14	3.82	2.00	2.08

[1] Source: Unpublished data from food consumption surveys made in 1948. Home Economics Research Branch, Agricultural Research Service, U. S. Department of Agriculture. Because average household size differs among income classes, the original survey data have been adjusted to a constant household size of 3.5 persons. The following food groups were also standardized for regional differences in consumption: Flour, meal, cereals, pastes, bakery products, milk, sugar and sweets, potatoes and sweetpotatoes, and fats and oils.

[2] Approximately the quantity of fluid milk to which the various dairy products (except butter) are equivalent in protein and minerals.

[3] Includes butter.

Clothing expenditures by family income, Minneapolis-St. Paul, 1948–49: Average family expenditures and relatives of expenditures for clothing purchased new, ready to wear, by fiber

Family income	Number in cell	Average family size	Average total expenditure for garments made primarily of—			Relative expenditures for garments made primarily of—		
			Cotton	Wool	Other materials [1]	Cotton	Wool	Other materials [1]
Under $2,000	70	2.2	$21	$44	$26	$100	$100	$100
$2,000 to $2,999	155	2.5	47	86	59	224	195	227
$3,000 to $3,999	131	2.6	54	117	70	257	266	269
$4,000 and over	154	2.6	84	241	107	400	548	412

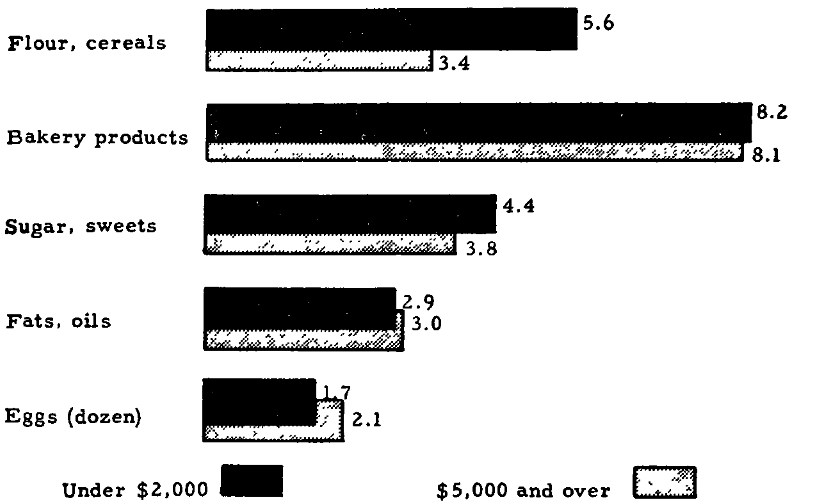
[1] Rayon, acetate, silk, linen, nylon, plastic, other miscellaneous fibers and mixtures of fibers. Excludes shoes, leather, fur, and rubber garments.

NOTE.—The rise in expenditures by income is accounted for in part by the larger families in the higher income classes and by the higher unit prices paid.

Source: Unpublished data from studies of Family Clothing Supplies in 1949–50, Home Economics Research Branch, Agriculture Research Service, U. S. Department of Agriculture. These studies were limited to families of 2 to 4 persons with 0 to 2 children aged 2–15 years.

FOOD CONSUMPTION AND FAMILY INCOME

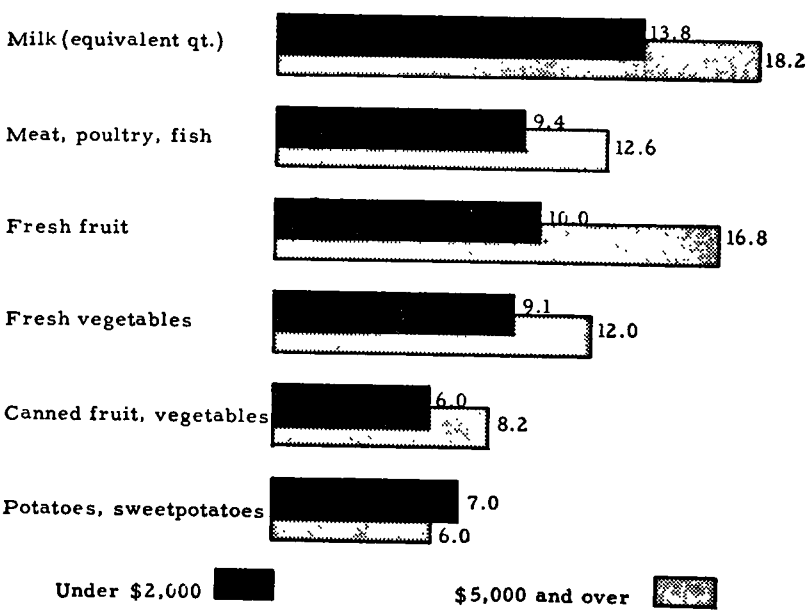
Pounds of foods used at home in a week by urban households*, Spring 1948



*3.5 persons. See table for description of data
Source: Home Economics Research Branch
Agricultural Research Service, U. S. Dept. of Agriculture

FOOD CONSUMPTION AND FAMILY INCOME

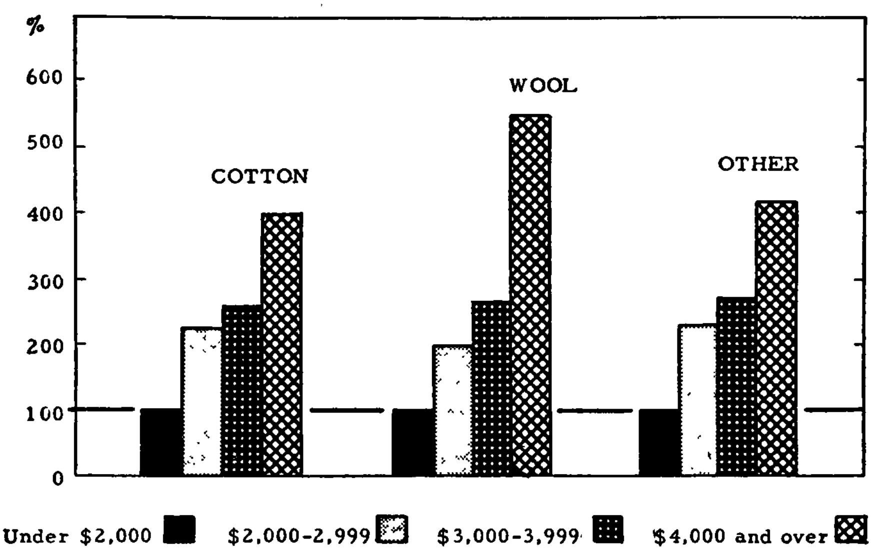
Pounds of foods used at home in a week by urban households*, Spring 1948



*3.5 persons. See table for description of data
Source: Home Economics Research Branch
Agricultural Research Service,

CLOTHING EXPENDITURES AND FAMILY INCOME

Minneapolis - St. Paul, 1948 - 49



Expenditures of families with incomes under $2,000=100%

See table for description of data

Source: Home Economics Research Branch

Agricultural Research Service, U. S. Dept. of Agriculture

Mr. WITT. Mr. Chairman, we have been doing some work at Michigan State College which bears on that point, and I think you might be interested.

We took the food consumption by income groups up to $7,500 and calculated what the increase in food consumption would be if each of those groups were to have a consumption of the next group higher.

We found, for example, that in dairy products there would have been a 5.4-percent increase in the consumption of dairy products. That is, the total consumption of dairy products in the United States would have been 5.4 percent higher if each of these groups had been raised to the next group higher.

Representative BOLLING. May I interrupt you a minute? Did you relate that, by any chance, to surpluses?

Mr. WITT. We simply took the various groups, food groups; I do not have the percentages these would represent of a surplus. Perhaps Mr. Wells could supply that.

Mr. WELLS. The surplus dairy stocks now on hand, Mr. Bolling, run between 6 and 7 percent of the year's annual production of milk. And the production of milk in the last couple of months has continued some 3 or 4 percent above the current consumption rate (calculated on an annual rate).

Representative BOLLING. Let us follow through on it.

Mr. WITT. Potatoes are a product which do not increase very much in the groups. You only get 0.3 percent increase, which indicates that if you are going to have rising incomes and development of the economy, you have to switch away from such products as potatoes and sweetpotatoes. The same holds true in the case of beans and peas and nuts. We had an actual decrease of 5.9 percent in this income group. In other words, higher income groups consume less of these products than lower-income groups.

Tomatoes and citrus fruits, 9.7 percent.

Mr. MITCHELL. Up?

Mr. WITT. Up.

Green and yellow vegetables, up 3.6 percent; other vegetables and fruits, 8 percent up; eggs, 4.1 percent up; meats, poultry and fish, 5.1 percent up.

Now we come to flour and cereal products, and there again there is a decrease, 4.8 percent; butter, fats, oils, minus 0.8 percent. In the case of sugar and sirups, a 1-percent increase.

Chairman WOLCOTT. I wonder if you would yield to me to ask Mr. Witt if that study is in such form as would be available for the record?

Mr. WITT. I will be glad to provide this table for the record.

Chairman WOLCOTT. This seems to me to be valuable.

Mr. WITT. This is based upon 1948 consumption patterns.

Chairman WOLCOTT. We would be very grateful to you if you make it available to us.

Without objection, that will be put in the record.

(The table and material referred to follows:)

Table 4 which follows was prepared so as to provide some information as to what the consumption potentials are within the United States if increases in real income occurred or if some sort of a food-subsidy program were provided. We wanted this information so we could better compare the possibilities of overseas use with the possibilities of increasing domestic human consumption.

In doing this work, Mr. Luther Pickrel, who is helping me, took the average consumption of each of the food groups by income groups in 1948 ranging from zero to $7,500. The consumption of the lowest income group, $999 and less, was raised to that of the $1,000 to $1,999 income group; the consumption of the $1,000 to $1,999 group was raised to that of the $2,000 to $2,999 group and so on up to $7,500. The total consumption was calculated and compared with the 1948 consumption patterns. These provide the increases or decreases shown in table 4. This procedure assumes, of course, that low income groups would consume food products at the rate of the next higher group if the purchasing power or food were available to them.

TABLE 4.—*Percent of increase or decrease*[1] *in total food consumption, by commodities which would result if each of the respective income groups consumed at the rate of the next higher group, 1948*[2]

	Year 1948
Dairy products	5.4
Potatoes and sweet potatoes	.3
Beans, peas, and nuts	—5.9
Tomatoes and citrus	9.7
Green and yellow vegetables	3.6
Other vegetables and fruits	8.0
Eggs	4.1
Meats, poultry, and fish	5.1
Flour and cereal products	—4.8
Butter, fats, and oils	—.8
Sugar and syrups	1.0

[1] Decreases are recorded as minus.

[2] Income divisions per consumer unit for 1948 began with income per consumer unit of $999 and below and progressed to $7,500 and over. This means that only the "eating-levels" of those in units receiving $7,499 or less were raised.

Source: Computed from data given in table 3, p. 8, Food Consumption of Urban Families in the United States, Spring 1948, USDA, ARA Bureau of Human Nutrition and Home Economics, Washington 25, D. C. (Basic data given were based on household consumption per week—April–June 1948.)

Representative BOLLING. That leads to the next question, and I will direct this to Mr. Mitchell.

You mentioned the preferable alternative of increased consumption. I would like you to go into some detail of how in practical terms that could be achieved.

Mr. MITCHELL. I make some suggestions in my prepared statement, Mr. Bolling, which summarize briefly a variety of programs, some of which have been tried and some of which have not yet been tried and some of which have been proposed by various members of Congress, including, prominently, Senator Aiken.

Representative BOLLING. Are you referring to——

Mr. MITCHELL. Domestic-food-allotment plan; food-stamp plan; industrial plant hot lunches; disposal schemes to low-income groups; relief groups. I am particularly impressed with the last-mentioned, since I know personally a person on $50 a month relief, age 65. I know that person must spend the entire food-share of this small income available for beans, dried beans—no variety to the diet. Rent is entirely too high. A furnished room with a hot plate for $38 a month leaves very little for food.

That person would be tremendously benefited if some sort of food-allotment plan which would provide a pound of butter a week, a dozen eggs a week, and a quart of even skimmed milk a day, were provided.

That is only one example of the type of action program I am talking about domestically. The possibilities of foreign programs are even more existing.

Representative BOLLING. Now, have you examined the latest version of the bill on this subject that was put in by Senator Aiken and others? Have you examined that in recent years?

Mr. MITCHELL. I am sorry. I have not seen it.

Representative BOLLING. Do you know of any proposed legislation which has been prepared which embodies all the proposals that you have in mind?

Mr. MITCHELL. Of course, that is a very easy question to answer. "No."

(Mr. Mitchell later submitted the following statement:)

1. Such a package deal would be a very big and important bill—it would be almost an enabling act to carry out the broad and optimistic principles of the Employment Act of 1946. It would commit the United States to the virtual abolition of malnutrition in this Nation of ours. It would accept the principle that health education, including participation in an improved hot-lunch program, was an essential part of the educational process for all our children. It would make money and food available to get the program in operation in practically all schools. It would include adequately financed programs of distribution of healthful foods to all our citizens who are not able, because of low incomes, to pay for a good diet. It would certainly include, on a nationwide basis, most of the features of the domestic food allotment plans unsuccessfully sponsored by Senator Aiken and others over past years. A broad program like this would require a year or two to be staffed and swing into operation. During that interim, immediate distribution should be started of the protective foods to the ever-increasing numbers of unemployed Americans, and those on relief and old-age pensions. These features of the bill, to improve the diet and health of Americans, should be implemented with appropriations large enough to do a good job, not a piecemeal job. For this portion of the bill, the cost could be estimated roughly by multiplying 10 million people, the 10 million who are most in need of such a program, by approximately $100 per person per year. One billion dollars a year, as a starter, for diet and health improvement is a reasonable price. This diet-improvement program should be planned as a long-run program, not a short-run disposal scheme.

2. Our two most serious surplus crops, wheat and cotton, are needed throughout the world by people whose diet and living level are so poor that even our large surpluses are very small in comparison to the need. Our surpluses can be very important levers, however, if they are used correctly, as part of a well-rounded program of economic development in the underdeveloped nations not yet under the immediate threat of Soviet imperialism. Correct use demands that the American goods be funneled mainly into educational channels, to support large-scale vocational training programs among the youth of the underdeveloped areas. This use of the food will result in reduced population pressure, rather than increased, as the nations are enabled more quickly to make the transition from rural to industrial life, in which transition birth rates usually decline. Furthermore, this type of distribution should properly take place through international organizations and in agreement with other producer nations, so that the flow of the commodities into underdeveloped nations will be steady, with short crops in some producer nations made up by large crops in others. The nations which would receive these products for a low price, or even as a gift, will quite properly be reluctant to receive them if they fear that they are nothing but disposal schemes for temporary surpluses—that a short United States crop of some future year would wreck the entire program. As to cost of this phase of the program, $1 billion per year would probably be enough in the immediate future to put our agricultural surpluses to excellent use. However, the major cost to the United States would not be for agricultural products. It would be the five or six billions that a well-rounded industrial development program will cost. Present plans of this administration, to cut the entire program far below those figures, would have to be revised sharply upward.

3. To guarantee that our Nation could carry out the commitments contained in this broad attack on the underconsumption problem, as well as for reasons of strategy and weather insurance, we should adopt the principle of security storage of all storable crops at a level which could stabilize our domestic consumption and enable us to keep up our international commitments. The level would be different for different crops, but I suggest that for most storables it be roughly 1 full year's domestic production. National security stocks must be in addition to stocks held ordinarily by private storage facilities for normal consumption. To a large extent the storage capacity for this security stock concept does not yet exist and will have to be built. It could be built and operated either by Government or private industry, but the stocks themselves must be bonded Government stocks guaranteed never to enter the market except in emergency, and therefore never to depress prices below parity. The cost of acquiring the stockpiles would be a nonrecurring investment made during the next few years at a rate determined mainly by the speed with which storage facilities could be built and filled at reasonable prices. Thereafter, rotation of stored stocks to keep them in good condition should be possible at a very reasonable cost.

4. The part of the program aimed at better utilization of the underemployed human resources on the low-income American farms would not cost much in nonrecoverable outlay. Farm Security Administration experience indicates that the most important way to enable low-income farmers to intensify their economic operations and achieve a decent living is to be able to secure adequate credit at low-interest rates. This credit, if FSA experience is a guide, will be repaid with virtually no loss. The amount to be involved will be large—somewhere between 2 and 3 million low-income farm families now would need on the average $5,000 in new credit to finance the reorganization of their farm operations to the extent that they would be efficient producers. This would require loan authority of from $10 to $15 billion. Although much of this credit would undoubtedly have to be made available through Federal agencies, country banks can and would perform both the credit and supervisory function with many of these farmers, particularly if the Federal Government guaranteed, for a small premium, the repayment of the loan. The major expenditure item for such a program would be the cost of supervision and farm-home planning. For a few years, this nonrecoverable cost would probably be as much as $100 per family on the program. This total would be $200 to $300 million, but within a period of from 5 to 10 years the problem of poverty in agriculture should be fairly adequately solved, and this expenditure could be reduced.

5. Concentration on the poverty problem does not mean that the middle-income family farm is to be neglected—adequate credit for improvements in farm organization should be made available, and widespread improvements within the framework of better farm-and-home planning, soil conservation, and improved

land-use continue to be necessary. Considerable work is already under way among this segment of agriculture, by existing Federal agencies and the State extension services; appropriations could, however, be doubled or tripled for these purposes with a material net gain both from the welfare standpoint and ultimately from the monetary standpoint as better farm organization contributes more income-tax revenue.

6. Then, after fairly definite assurance has been achieved (in the above-mentioned segments of this omnibus bill for agriculture) that the problems will be attacked which cannot adequately be solved by any price policy—then and only then can we with any great degree of either economic or political success abandon any significant part of our present price-support program. But if these prior things are done, most Americans who work to secure fair treatment for agriculture would willingly agree with a simplification and even a reduction in the present level and scale of price supports. Provision for price supports, Government loans, and even production controls, should probably be kept on the statute books to take care of some unusual emergency or revolutionary technological changes which might make certain crops temporarily or permanently obsolete. (Example: If tobacco should be proved definitely to be harmful in the cancer-producing sense, and if we should not be able to find a specific cure or preventative for cancer, tobacco would probably become rapidly an obsolescent product.) But these provisions on our statutes would need to be used very seldom, and ordinarily for very short periods.

Representative TALLE. Mr. Chairman——

Chairman WOLCOTT. Mr. Talle.

Representative TALLE. I hope before we adjourn that there may be some discussion on two questions: (1) Which is the better, fixed or flexible price supports; and (2) what can be done to enlarge our foreign markets for farm products.

Mr. Chairman, would you be agreeable to having a quick confession from these gentlemen as to which they think is better, flexible or fixed price supports?

Chairman WOLCOTT. I suggest the gentlemen might quickly summarize their views.

Representative TALLE. Right.

We will start with you, Mr. Galbraith.

Mr. GALBRAITH. Mr. Chairman, I have indicated in my paper—should anybody feel called upon to read it—that the path of progress does not lie either with the legislation we now have or with the proposals that have been advanced. Indeed, I think the debate that is now developing between fixed supports and flexible supports is in very large measure a false discussion. The two positions have gotten so close together, and both positions leave neglected such important areas of improvement in our farm legislation that I think the debate is in many respects an unhappy one.

I would myself like to see us begin with the legislation that we have now on the statute books and begin to improve it step by step in the areas in which it needs improvement.

To take off on some of those areas, I would like to see the conservative but effective protection given to the key perishables. I would like to see a reconsideration of the method of making the supports effective, particularly for dairy products. I think the method of making the supports effective is accumulating disaster for the dairy farmer.

I would like to see the incentive increased substantially for the conversion of acreage back in the Great Plains, getting some of the wheatland back to grasses. I have also indicated, incidentally, that the wheat parity is too high. I think that is one single example.

But these are step-by-step changes from the legislation that we now have, not the reconstruction or development of a planned new farm program. I think any notion that you can bring another committee into Washington to write another farm program is something that should be avoided at all costs. Farm programs are not written that way. We will only get improvement by undramatic, step-by-step correction of the shortcomings of the program we now have.

Representative TALLE. Do you have anything to say about that, Mr. Norton?

Mr. NORTON. I think, as I said in my statement, that the movement toward a flexible system is a step in the right direction. It will not correct all the ills. The recommendations which came to the Congress from the President were in effect small modifications of the act of 1949, which I take it is the administration's point of view as to what is politically, let us say, feasible at this time.

We are going to have, about 3 months from now, a very important referendum which will throw some light on what the farmers really think about these programs. And this is a 100-percent referendum. I inquired of the Department of Agriculture and the Chief of the Grain Branch dug out figures for me which indicated that only 60 percent of the eligible wheat growers expressed an opinion on the marketing quota vote last fall, only 60 percent. The rest either did not care or were confused by the issues.

But this referendum that is coming up early in May is a 100-percent referendum as to what the farmers think about the program offered to them. And I am referring to the planting of corn. This referendum will be with corn planters. And we will then find out what the people who grow corn really think.

The choice lies between (1) a reduced acreage, in the commercial acreage of, I think, 17½ percent, and access to loans at 90 percent of parity, or (2) planting what corn they please with no loans at all. The second choice is going a long way. This is way beyond flexibility.

I do not know how it will come out, but I should suggest that it would be highly desirable for the Members of Congress to watch this referendum. It will be 100 percent.

Mr. BEAN. Mr. Chairman, may I comment on that 60-percent figure?

Chairman WOLCOTT. Mr. Bean.

Mr. BEAN. I hope that that is given its proper weight. I do not know whether Mr. Norton meant to imply that that was too small a proportion of eligible people expressing themselves on an issue.

As I recall the figures on the expression by the eligible voters in 1952, only about 62 percent of them expressed themselves as to whether they preferred the Republican Party or the Democratic Party.

Mr. NORTON. All I am saying is that this will be a 100-percent vote on corn, and the other was 60 percent. Whether it is high or low, I will leave to other people's judgment.

Representative TALLE. I notice, Mr. Norton, in your statement you say, "There are many places where more goods can be sold to advantage, both at home and abroad."

Mr. NORTON. I did not have time to spell that out. Very frankly, if we have a realistic price on butter, I think we can sell all the butter we have. I am not going to spell out the methods by which that will be done.

Six weeks ago I told one of the high officials in the Department of Agriculture that the only decision they had to make about the butter situation was to decide to sell the butter, and they would find ways of selling it. For any of these more flexible items in the diet, which generally covers the meats and the more valuable fats, and milk, I am quite confident that we could increase consumption by a variety of effective merchandising methods.

Last year we increased the consumption of beef by 30 percent. The key to that was two things: One, a lower price; and two, very effective merchandising by the whole meat trade including the retail stores.

Now, when you come to the foreign market, I would have to spell that out in great detail. It would take a lot of time to examine it, which we do not have. I have been on record for the last 6 months that the spot in the world where there was a real scarcity of food that could be backed up by effective purchasing power was behind the iron curtain. This is where real food shortages exist. There are basic reasons for that. And one of the most basic is that the Communist system simply does not act to stimulate agriculture but to retard it.

There are growing populations there. Here is one big area where foodstuffs can be sold abroad. This has been dramatically illustrated recently. I am not raising any questions about the reasons for the rejection of the offer to buy butter. But here is an area where you can find a big market for a lot of foodstuffs, if you want to enter it.

That would be one illustration. It would take a lot of time for me to elaborate further, but it is the best illustration that occurs to me offhand.

Representative TALLE. Of course, it is a tremendous subject and cannot be done in a minute or two.

Mr. Witt, do you have something to say?

Mr. WITT. You are asking with reference to flexible and rigid support levels?

Representative TALLE. Yes.

Mr. WITT. I think that, again, this hides one of the important things, and that is, as indicated by some of the others, that one of the problems which we have is that we built up our capacity, especially in the case of wheat, for export because the world needed it. The world does not need it so badly now, and we have this capacity. We have to find some way of adjusting downward.

So long as we have wheat prices based upon the relations between wheat and dairy products and beef and so on, which existed in the 1910–14 period, we are neglecting all of the technological changes which have occurred in the production of these cereal crops since that period of time, and are not encouraging those farmers who can shift away from wheat, to make those shifts.

I realize that incomes are also important in many of these areas where wheat is the only crop, and that is why I suggest in my statement that we need to be concerned with the income part of the picture, also. But so long as you concentrate on price and price guaranties which are out of line with recent cost of production relationships you are not facilitating this adjustment between commodities, which is one of the reasons why we have these surpluses of these storable commodities. And, of course, in these figures I cited earlier you will notice that even with an expanded purchasing power in this country, the cereal products would not benefit. In fact, they would probably lose something in human consumption in terms of amounts consumed.

So you need to give thought to ways of shifting over to some of these products which our consumers are more ready to buy, and ready to buy in increased quantities.

Professor Mitchell has suggested here several times that we should concern ourselves with economic development and expanding consumption, and shifting our agricultural plant over to these other products at the same time.

Mr. GALBRAITH. Mr. Chairman, could I ask a question of Mr. Witt? I have a feeling that, without saying so, that you are getting close to the position that I would take, namely, that we need to get production payments back into the system, at least for limited use.

Mr. WITT. That is right.

Mr. GALBRAITH. I think that point should be explicit rather than——

Mr. MITCHELL (interposing). May I add the fact that although Professors Galbraith and Witt and I seemed to be rather close together on most of these major recommendations, I have a specific objection to production payment as a matter of bad tactics, not because I have any ethical or economic objections to it. And that objection appears in my prepared statement.

If I may go on for another minute, I would like to say that if we have this realistic upgrading of the level of our national farm policy that Professor Galbraith mentioned—there would, of course, be additions and amplifications of existing programs—I think the most successful way to achieve it would be to draw up in a package, such as Representative Bolling has mentioned, a package which would include consumption expansion, low-income farm aid, and necessary changes and adjustments in our admittedly out-of-kilter price and storage policies. But unless that complete package can be drawn up, I would suggest that the Members of Congress who are unwilling to vote for an across-the-board price support reduction are being not only realistic, but economically and socially correct.

Mr. NORTON. Mr. Chairman, could I make a comment on the wheat situation?

Chairman WOLCOTT. Mr. Norton.

Mr. NORTON. I did not say anything about wheat because we do not grow much of it in the Corn Belt. But one thing I would like to say. I agree with Ken Galbraith that the parity price and so the support price for wheat is just too high. It is too high under current cost and consumption conditions.

There is a recommendation that this gradually be lowered in accordance with revised parity. The prices have spread the Wheat Belt out. Larry Witt said it has doubled the acreage in Michigan. I saw wheat growing in many places last summer, around the United States which surprised me. Now, as to solution to the surplus wheat problem, I take it there are only two. I do not think we are going to get very far by our acreage reduction programs. I think we have to get some adjustments in acreages and would tend to lower the acreage if we had a somewhat lower price.

In the first place, some time or other, there will be short crops of wheat somewhere in the world. Our present situation arises largely out of the fact that we had two giant world crops of wheat in 1952 and 1953. These averaged 18 percent above prewar, which is faster than the growth of population. The surplus emerged very suddenly with these two big crops. The history of wheat production is that somewhere, sometime, you get poor yields, not due to planned reductions, but due to bad weather. These may come, and these may relieve this wheat production.

I do not have any information, as Mr. Bean may have, as to when they will come.

Now, the other great way to get rid of wheat is to consider it as feed. Obviously, there is little inelasticity in the demand for wheat as food in the United States. And higher incomes, rather than correcting the situation, will tend actually to reduce the consumption of wheat. But we cleared up our last big surplus of wheat in this country, a surplus accumulated just before the war, by feeding it during the war. It went to feed hogs, which fed the armies of ourselves and our allies. We not only cleaned up our own wheat; we cleaned up the Canadian wheat surplus.

Well, to do this under present conditions obviously means lower prices. I am confident in my own mind that some of the cheaper wheat we have been exporting this year has been going into feed. Take the French, who raised a big crop of wheat in 1953 and supported their domestic price, but realistically set out to sell their surplus. They have been selling wheat for the last 2 months freely to England at a price which is equivalent to the price England pays for American corn. There is no question in my mind that this French wheat is being used for feed.

So the final solution of this problem will involve, in my opinion, unless there are dramatic crop failures somewhere, some practical way to get more wheat into feed, and this, of course, will compete with corn raisers, including me, but that is all right. If that is the way out, if it is done under realistic prices, O. K.

Mr. Bean. Mr. Chairman, may I point out that under the peacetime conditions, with very low prices of wheat competing with corn, the increased feed market for wheat does not mean much more than possibly an additional 100 million bushels.

Mr. Norton. Well, 100 million bushels is 100 million bushels.

Mr. Bean. That is an outer limit.

Mr. Norton. And we have very little knowledge, in my opinion, of the extent that wheat is used as feed in other parts of the world.

Mr. Bean. And that wheat would be in competition, and displace other feeds.

Mr. Norton. All I am going to say is that if we continue to raise wheat on the scale that we have been raising it, we either pile it up in storage or we increase the use as feed. There are no other uses for wheat of any significant importance but food and feed.

Mr. Bean. Mr. Chairman, it is because of differences of this type in the appraisal of the basic economic facts in different commodities that I suggested in my statement that it would be well to have before us the technical studies for each of the commodities which preceded the conclusions by the President and Secretary of Agriculture when they laid out their recommendations. Unless you have those basic facts before you, I doubt whether you will know whether there are 100 million bushels more for the wheat market in feed or less. And many questions of this sort will not be answered until you have those basic facts before you.

Representative BOLLING. Mr. Chairman, is there any reason why that information should not be requested?

Chairman WOLCOTT. I do not know that it is available.

Mr. ENSLEY. Mr. Koffsky of Agriculture is here.

Chairman WOLCOTT. Let Mr. Koffsky answer it.

Mr. KOFFSKY. I believe arrangements are underway to make those materials available through the House Committee on Agriculture.

(The materials referred to are available in the files of the House Committee on Agriculture.)

Chairman WOLCOTT. Are there any other qeustions by the committee or by the other panelists?

Mr. BEAN. Mr. Chairman, there are a number of statements that have been made, not only here today but over the land, about farm economic problems. There is one particularly that I am bothered by, which was presented to you by the Secretary in his testimony on the 4th. The comparison that he presented with regard to the price of commodities that have been supported and the course of prices of commodities that have not been supported—all kinds of inferences have flowed from that illustration. I think there is a misinterpretation of those figures.

You cannot argue at one time that the prices that are high, as in wheat, cotton, and others, are high because they have been supported too high, and then turn around and say or imply that because the prices of commodities that have not been supported also follow the course of the supported prices, therefore, you dismiss the effect of the support operations on the basics and their direct or indirect influence on nonbasics.

I just want to flag that particular item, because it is being popularized, and I think it lends itself to all kinds of misinterpretations, and I hope no misinterpretations of those two lines are indulged in by the committee.

Chairman WOLCOTT. Thank you, Mr. Bean.

I might repeat, as I said at the beginning, that each of the panelists will have an opportunity to revise and extend his remarks in any manner that is germane to the subject, and we shall be glad to have any further comments in the extension of remarks which you care to put in in answer to the questions.

Mr. ENSLEY. Mr. Chairman, we have several questions regarding the indexes of prices entering into the parity calculation which Mr. Wells could answer for us and insert in the record later.

(The material referred to follows:)

QUESTIONS AND ANSWERS REGARDING USDA INDEX OF PRICES PAID BY FARMERS

Question: There is much interest in prices paid by farmers as they relate to parity and the way in which your index attempts to measure these prices; particularly what you consider a price. Does your index actually represent the price of approximately the same kind of a farm machine, for instance, from one time to another or does it disregard improvements in machines and so, in a sense, measures an increased standard of living for the farmer?

Suppose you had a 32-horsepower tractor in your index 6 years ago. That same tractor today may have 38 horsepower and, in addition, have hydraulic controls which it didn't have before, a starter, a better hitch, etc. Do you consider the higher price for the current version of this old tractor represents simply a price increase, and do you so show it in your index? Or do you make some adjustment for the fact that the current tractor is a better one and that the farmer is currently buying more than he bought before, in which case the current price stands for a greatly increased standard of living and not just a price increase? How do you handle this situation?

Answer: The parity index is a measure of changes in average prices paid by farmers for the commodities and services they buy for use in living and production. These average prices apply to commodities commonly bought by farmers. They cover the line, grade, quality, etc., of items sold to farmers in the largest volume by each of the reporting dealers or merchants for each of more than 300 commodities, whether these items are food, clothing, farm machinery, or any of the other categories of commodities bought by farmers. It should be noted that the index of prices received by farmers with which it is compared, also is based on average prices received by farmers for commodities sold.

With specific reference to farm machinery, the average price paid by farmers relates to the type, size, quality, etc., of rather generally described machines sold by each of approximately 1,600 voluntarily reporting farm machinery dealers. Average prices of farm machinery therefore measure the price of the same kinds of farm machinery from year to year, but not the price of identical machines, since the lines of machinery manufactured and handled by dealers vary from year to year (somtimes oftener) to an indeterminate degree as to design, wearability, and general quality. Ordinarily these changes in design and quality of the basic machines are rather small from year to year, but over a longer period they may be significantly accumulative. This, of course, is characteristic of our whole society, as technical improvements are passed on to the consumer, often, but not always, with some increase in price. Thus, improvements are not disregarded in measuring changes in prices of farm machinery, but the basic definition encompassed by the term "average prices paid by farmers" applies to machines bought by farmers in the largest volume (including the usual complement of additional equipment) as reported by respondents from one pricing period to another.

Turning now to the question of tractors as mentioned in your question, we do not specifically include a 32-horsepower tractor in our index. The index includes 2 types of tractors, wheel and crawler, each with 3 separate horsepower classifications. Thus, types of tractor for which average prices are included in the index are wheel tractor, under 20-belt horsepower, wheel tractor. 20–29-belt horsepower, and wheel tractor, over 30-belt horsepower. Crawler tractors are classified as to under-20-drawbar horsepower, 20–34.9-drawbar horsepower, and 35–50-drawbar horsepower. We, of course, are aware that tractors have changed greatly in various respects, but we know of no measure which will provide any satisfactory nor generally recognized measure of improved efficiency. We know of no practicable way, for example, of comparing over the years the number of miles of plow furrow per gallon of gasoline, per quart of oil, per life of tractor, or of any other satisfactory and generally accepted criterion of efficiency in the broad sense. Rather we have considered that competition within the industry for the farmers' dollar would maintain a reasonable degree of comparability within any one of the categories such as wheel tractors, 20–29 horsepower, and that in providing an average price for such tractors over the years, that even though there may be certain changes of features or design, we are providing the best and most satisfactory all-around measure of price trend for such tractors. From the legal and economic standpoint, the price of the article farmers buy is the thing that is important.

One additional word. This problem of handling technical progress in the price index is indeed a difficult one. We all know that almost any item of equipment, clothing, or food which is bought today is in many respects quite different from the commodity that went by the same definition a generation ago. Yet they serve the same purpose and in respect to certain of their characteristics they have no doubt been greatly improved. But we know of no means by which such improvement can be measured in a manner which would be satisfactory to any group for use in adjusting a price index for the amount of increased efficiency or higher standard of living resulting therefrom. It has been our belief that by measuring the change in the price (by averaging the prices of the grades, qualities, etc. of volume sellers) or commodity sold at a given time within a reasonably prescribed description or specification, we are providing the best generalized measure of the change in price of such items bought by farmers as intended by existing agricultural legislation.

Question: Where do you put tractor prices in your index? Are they in the farm machinery group?

Answer: Tractor prices are not included in the farm-machinery group. They are included in the motor vehicle component of the production segment of the parity index, together with prices for trucks and automobiles. About one-third of the total weight for farmer purchases of passenger cars is assigned to the production segment of the parity index. The remaining portion is assigned to the living component of the index.

Question: Why do you put tractors in the same group in your index as passenger automobiles? Can you explain this in the light of the fact that tractors and farm implements that go with them are designed to work together? Ought not tractors be included with farm machinery?

Answer: Tractors were placed in the same group as trucks and the share of cost of passenger automobiles charged to production for the reason that a tractor is, in many respects, more similar to trucks and automobiles than to farm machinery generally. All of these vehicles are powered by internal combustion engines. Some tractors are designed, rather specifically, to be used with certain types of cultural implements. On the other hand, tractors generally are essentially all-purpose in character, and may be used one day for pulling one implement, another day for pulling another, and a third day for hitching to a trailer and used for hauling either on the farm or on the open highway.

Questions of classification always involve borderline cases. When considered solely from the standpoint that tractors and implements are designed to work together, tractors may be construed as representing such a borderline case. At the same time, if tractors should be classified with other farm machinery it would seem equally logical that trucks being used on the farm in connection with farm production purposes should also be classified as farm machinery. Similarly, an automobile is used partly in connection with the production phase of the farm enterprise nad may logically be classified as farm machinery. Thus, once this line is adopted, it leads to the conclusion that the present motor vehicle component (production part) be combined entirely with farm machinery and the motor vehicle subgroup eliminated altogether. This would have the advantage of reducing the number of separate components in the parity index. However, autos, trucks, and tractors have more in common than any one of these power-producing items has with other items of machinery. We accordingly have considered them as a separate group.

To date no requests for reclassification have come from any group although we have informally discussed this same question with representatives of the Farm Equipment Institute. Of course, simply shifting or reclassifying tractors would not affect the overall parity index as such (assuming same introductory dates and item weights were used).

Question: If tractors are in the automotive group, where in your index do you include self-propelled combines, or self-propelled cottonpickers, or even self-propelled windrowers? These implements are, in a sense, tractors with implements fixed on them. Do you also put them in the automotive group in your index, or are they in some other group?

Answer: The self-propelled combine is the only self-propelled item included in the parity index. This item is included in the farm machinery group since its principal function is the performance of a particular farm operation. Seldom if ever, is the propelling mechanism of a self-propelled combine detached for other purposes, and its design is clearly subsidiary to and dictated by the characteristics of the combine operation for which the functional machinery is designed. Furthermore, the manufacturers price the complete machine as a unit in all cases that have come to our attention.

Questions and Answers Regarding USDA Index of Prices Received by Farmers

Question: How does your Index of Prices Received by Farmers take into account the great portion of crops that now go under loan. At what price do you include wheat, for instance, that goes under loan?

Answer: The Index of Prices Received by Farmers is computed using midmonth price data for most commodities for which such data are available. For wheat, the midmonth price estimates relate to wheat sold by farmers on or about the 15th of each month. Therefore they do not include a specific allowance for wheat going under loan. Of course, the effect of wheat going under loan is reflected in the price of wheat sold since the loan rate tends to place a floor under the market price.

In connection with season-average-price estimates a separate allowance is made for wheat actually taken over by the Government under the loan program. But this allowance is not reflected back into the monthly price series themselves partially because of a lack of current detailed information covering quantities placed under loan by months and the value of such quantities but primarily because of the fact that wheat going under loan can be redeemed later and sold on the open market. Accordingly there is no way of knowing currently how much will be redeemed and sold later and which thus should be excluded from the current month. Normally only a small adjustment in the season average price is needed to reflect the quantities taken over by the Government. For example, during the past 5 years the United States season average price of wheat was not changed by this allowance in 3 years, it was changed 2 cents (about 1 percent) in 1 year and 5 cents (2.4 percent) in the other year.

Question: If 80 percent of the wheat goes under loan in the fall, what price do you use for the rest of the wheat that is marketed? Where does it come from or how do you calculate it?

Answer: The midmonth price estimates relate to wheat marketed and sold by farmers. Wheat going under loan is not sold until actually taken over by the Government since the producer can redeem it until that date. If 80 percent of a crop goes under loan in the fall the data on midmonth prices received by farmers would necessarily relate to the remaining 20 percent when it was sold.

Question: If the farmer pays off his loan and markets his own wheat as he may do when prices go up, how do you handle this problem in your index?

Asnwer: If the loan is redeemed and the farmer markets his own wheat the price for such sales is included in the then current midmonth price estimate and thus in the prices received index as of the month of sale.

The procedure for handling corn, cotton, and other commodities for which a loan program is in operation is essentially the same as for wheat. In connection with commodities where the price support operations are handled by a direct purchase by the Government the value of such purchases is reflected in the midmonth price estimate.

Because of the observance of Lincoln's birthday anniversary tomorrow, the committee will not be in session. Our next session will be on Monday, the 15th. We will meet in this room again to take up a panel discussion on the foreign economic outlook related to the domestic outlook and implications on Federal economic policy at 10 o'clock in the morning.

Without objection, the committee will stand in recess until Monday morning at 10 o'clock.

(Whereupon, at 12:55 p. m., Thursday, February 11, 1954, the committee adjourned to reconvene at 10 a. m., Monday, February 15, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 15, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10: 15 a. m., in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman); Senators Carlson, Fulbright; Representatives Talle, Simpson, and Patman.

Also present: Grover W. Ensley, staff director, and John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We have an outstanding panel this morning on the subject of the foreign economic outlook related to the domestic outlook and implications for Federal economic policy.

We have Mr. Raymond Vernon, Deputy Director, Office of Economic Defense and Trade Policy; Mr. Howard Piquet, senior specialist, Legislative Reference Service, Library of Congress; Mr. Claudius Murchison, economic adviser, American Cotton Manufacturers Institute; Mr. O. Glenn Saxon, professor of economics, Yale University; Mr. Elmer F. Cope, internaitonal representative of the United Steelworkers of America, and Mr. William Adams Brown, of the Brookings Institution.

Gentlemen, we are very happy to have you here this morning.

If it is agreeable to the committee and to the panel, we will proceed in the usual way of permitting the panelists to read their statements without interruption, expecting, of course, after the preliminary statements are read, that they subject themselves to questions, and they should feel at liberty to question each other.

I believe, first on the list is Mr. Vernon.

Mr. Vernon, you may proceed.

STATEMENT OF RAYMOND VERNON, DEPUTY DIRECTOR, OFFICE OF ECONOMIC DEFENSE AND TRADE POLICY, OFFICE OF THE ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. VERNON. Mr. Chairman, my statement is comparatively brief.

In order to get a sense of where our economy stands today in its relation to that of foreign countries, it is worthwhile to consider for a moment or two what has happened on the international economic scene over the past few years.

THE SITUATION ABROAD

A few years ago, it was common practice among economists to refer to the fact that the world's economies were going through a transitional period. At that time, we were still rebuilding the industries and homes destroyed in the war and we were still satisfying some of the pent-up demands for goods which had accumulated in wartime. Today, almost unnoticed, the phrase "transitional period" has fallen into disuse among economists. We recognize now that the reconstruction period is behind us, once and for all. We can no longer approach international economic problems on the basis of emergency programs and improvisations in policy. What we do now has to stand up for the long haul.

The fact that we have put the transitional period behind us is illustrated in a good many ways. Industrial production in Western Europe, for example, is roughly 40 percent above its prewar levels. What is more, the problem of bottlenecks in the expansion of production, such as power shortages, is no longer an important difficulty. Agricultural production also has increased abroad; at first this recovery was disappointingly slow, but 1953 was a year of bumper crops. As a result, rationing has almost disappeared and inflation has been largely checked abroad.

But there are still real and difficult problems to be solved. The industrialized nations of the world, for the most part, have not sufficiently rebuilt their supplies of other countries' currencies—especially dollars—so that they feel free to allow their citizens to buy where they wish in the quantities they wish. Many of them are in the position of an individual who is back on his feet after a serious illness, earning his own way, but without the reserves that he needs to weather some new emergency. Like any individual in that sort of situation, they are budgeting their purchases abroad, hoping to accumulate the funds they need to live normally again. For some countries, the margin of safety is very thin. These countries need to acquire added confidence—confidence in their ability to earn their way and confidence in the fact that the rest of the world will continue to want their goods and services—before they will allow their nationals the luxury of buying all the foreign goods they want without exchange restrictions. We are very much closer to this objective than we have ever been since the war—and this is very important—but the objective has still to be achieved.

THE GROWTH IN AMERICAN FOREIGN TRADE

Of course, the most striking development in international trade since World War II has been the growth of American exports to the rest of the world. Our exports have increased from slightly more than $3 billion annually before the war to about $15 billion annually in recent years; and even after we adjust these figures for price increases, we find that the volume of exports is now about 2½ times its prewar levels.

This extraordinary demand on the part of the rest of the world for our goods is, of course, the reason why most countries have rationed the use of dollars by their citizens; they have restricted their citizens in their purchases of some types of American goods so that there would be enough dollars available to buy increased quantities of other American goods which they felt were more badly needed in their respective economies. This, of course, is one way of saying that there has been a dollar shortage in the world.

Have these increased exports created a new point of vulnerability in the American economy; are we, for example, exposed to the possibility of having a decline in business activity abroad bring on a decline in this country? This question is particularly in the minds of our cotton, wheat, and tobacco farmers, whose overseas sales dropped off sharply in the first part of last year.

I want to interpolate by saying that in the latter part of last year there was rather substantial recovery in their sales, although they have not quite come back to previous years.

I am sure most economists would agree that the United States domestic economy has little to fear from the threat of a recession abroad, so long as our own economy remains reasonably stable. As long as they have the dollars to buy, foreign countries' purchases of most of the goods they are buying from us today should hold up fairly well.

This view is based partly on past history, and partly on a calculation of the elements at work today. In the past, cyclical fluctuations in most of the industrialized countries which are our principal customers have been less extreme than those in the United States. More important, however, is the fact that the type of goods these countries buy from us today is the kind whose sales do not decline very much even when general business activity recedes. This is particularly true of our agricultural exports and of the hard goods that go with the construction of roads, bridges and utilities; it is less true, of course, of our exports of machine tools and agricultural equipment.

The main risk in our international economic relations is not the possibility of our being hurt by a recession originating abroad; it is rather the risk of our being hurt by the secondary repercussions of any recession which begins here. When business recedes, in the United States, our imports drop even more. This is partly due to the fact that the demand for many of our imports, such as foreign cars, diamonds, French wines, and English tweeds, drop sharply with even a slight decline in business activity. It is due also to the fact that many other imports consist of industrial raw materials, such as copper, tin, and rubber; in these materials, businessmen characteristically stop buying and begin drawing down on stocks even if business drops off only slightly.

As a result, foreign countries run the risk of losing dollar earnings in any domestic slump. And if that happens foreign countries will simply have to cut back their purchases from this market, whether or not they need our goods, at the same accelerated pace. This is the real problem—the problem that a recession which originates here will feed on itself through the loss of our overseas customers.

INTERNATIONAL RELATIONS AND TRADE

However, the international political stakes in avoiding an American recession are even greater than the economic stakes. The war has set in motion a series of new forces in the world. In the underdeveloped areas of the world, people who had accepted an unchanged economic way of life for hundreds of years are now determined to try to achieve better levels of living for their children than the bare subsistence levels on which they have traditionally existed. The traditions of political democracy are not as deep-rooted in many of these underdeveloped nations as they are in this country, nor are the advantages of a free, competitive society as obvious to them.

In the industrialized areas of the world, such as Western Europe, new aspirations also exist. The people of these areas are determined not to slip back to the chronic or recurrent unemployment to which they had been exposed before the war. If growth is halted and unemployment develops, every industrialized nation will go through a period of searching reexamination of its political and economic relations in the world.

A critical question in the minds of freemen in many parts of the globe is whether the economic and political freedom which we enjoy can go hand in hand with economic security and economic growth. It is our job to show that they can. We must constantly demonstrate that the children of freemen can look with greater confidence to the future than those who have turned over their economic and political lives to an omnipotent state. This is one of the great issues between us and the Soviet Union. It is an issue on which we have no choice but to win.

Chairman WOLCOTT. Thank you, Mr. Vernon.

Mr. Piquet.

STATEMENT OF HOWARD S. PIQUET, SENIOR SPECIALIST IN INTERNATIONAL ECONOMICS OF THE LEGISLATIVE REFERENCE SERVICE OF THE LIBRARY OF CONGRESS

Mr. PIQUET. In his Economic Report the President observes that the "principal contribution that the United States can make to the achievement of an efficient system of international trade and payments is to maintain a vigorous, healthy, and expanding economy." He adds that endless debate on foreign trade policy has aroused serious doubts as to the continuity of that policy and urges that with regard to international trade we should provide a sense of continuity, stability, and forward movement to the rest of the world. Other countries, he maintains, should do their share also in reducing governmental interference with the free movement of goods and capital.

With these objectives there can be little disagreement. What the administration will propose, in the way of legislation regarding foreign trade policy, remains to be seen as it is only now being formulated on the basis of the recently submitted recommendations of the Commission on Foreign Economic Policy.

SOME GENERAL OBSERVATIONS

There are two outstanding facts regarding the international trade of the United States that must ever be kept in mind. The first is that the principal force affecting the normal foreign trade of the country is the intensity of economic activity within the country. When we are prosperous and our gross national product is high, our foreign trade tends to be high. The converse is true in periods of recession and depression.

In recent years, however, imports have been losing ground relative to both exports and the gross national product. The indexes published in appendix tables G–3 and G–52 in the Economic Report of the President show clearly that, allowing for changes in price levels, merchandise imports (using the base period 1936–38 throughout) have increased considerably less than have either exports or the gross national product and that exports have increased much more rapidly than has the gross national product (largely because of economic aid and military shipments).

The logic of the case is irrefutable. The United States faces an inescapable choice. It either can permit imports to increase or allow exports to decline. We cannot keep imports low and exports high without continuing some sort of foreign aid. New foreign investment can ease the inevitable adjustment to some extent, but the amount of new foreign investment that would be needed to maintain exports at anything like their present level, without a substantial increase in imports, seems quite unrealistic.

The second outstanding fact is the sheer size of the United States. This country is so large, and the other countries of the free world are relatively so small, that even a slight business recession in the United States can have tremendous repercussions abroad. Indeed, one of the principal concerns of European leaders is that there will be a serious economic setback in the United States. One-half billion dollars in trade moving, say, from France to the United States constitutes but a small fraction of this country's huge gross national product. To France, on the other hand, it is of great significance.

If, for example, trade between the United States and France were to double (over the 1952 level) the ratio of French exports to the French gross national product would rise from 10.4 percent to 11.5 percent and the ratio of imports would rise from 11.9 percent to 12.4 percent. In the United States, however, the ratio of exports to the American gross national product would rise from 4.3 percent to 4.5 percent and the ratio of imports to the national product would rise by less than one-tenth of 1 percent.

The maintenance of a vigorous, healthy and expanding economy in the United States will be easier if the rest of the free world is prosperous. Because of the disproportionate size of the United States, every new dollar's worth of goods that the United States imports has a far greater effect upon the economy of the exporting country than it has upon the economy of the United States. Imports are thus an economical substitute for aid—at least when looked at from the point of view of the country as a whole.

Imports into the United States in 1953 amounted to almost $11 billion. If the gross national product should contract somewhat in 1954 it is probable that imports also will be proportionately smaller than they were in 1953, on the assumption that tariff rates are not lowered substantially. If, however, tariffs should be reduced it is possible that a contraction in the gross national product would not be reflected in an equivalent contraction in imports. But, since the imports that enter the country free of duty constitute such a large proportion of total imports it is likely that the falling off in imports that would result from a contraction in the gross national product would outweigh the increase in imports that might result from moderate reductions in tariff duties. Substantial reductions in duties, on the other hand, might result in sufficiently increased imports to outweigh the effects of the decline in general business activity.

TIME FOR DECISION

It is no exaggeration to say that the future economic configuration of the free world turns upon the policies that the United States is about to adopt regarding foreign trade. Since the close of World War II we in the free world have been using economic aid to buy time—time in which to postpone the making of decisions that can be postponed no longer. The general opinion today is that direct foreign economic aid must be terminated. It is coming to be recognized as a "shoring up" operation, rather than a fundamental piece of economic reconstruction. The question that faces us now is the extent to which it is necessary for the United States to open its markets to foreign merchandise in order to make possible a functioning international economy.

Certainly no one can criticize the United States for any lack of generosity. Since 1945 we have given over $40 billion to other countries for relief, rehabilitation, and reconstruction. The time has finally come when direct economic aid, as the principal bulwark of the international economy, must give way. The question is: "What will take its place?"

"DOLLAR GAP" NOT A CRITERION FOR AID OR TRADE

The United States did not give all these billions in aid merely to fill a so-called dollar gap. International accounting balance between ourselves and the rest of the world could have been brought about very quickly after the war had the United States not cared about the levels of living of the peoples of other countries. Had we not given any aid at all, balance would have been achieved, but at a low level of despair and much of Western Europe would in all probability now be Communist. In essence, the dollar gap is the expression and the measure of foreign aid. To say that aid, or even increased trade, is necessary in order to fill the dollar gap is an almost meaningless statement. The question, rather, is: "What are the minimum levels of living in other countries consistent with the maintenance of a strong, large, stable, and safe free world?" That this is also completely defensible on the ground of self-interest on our part is evidenced by the disturbing fact that if Western Europe were to succumb to communism the industrial capacity of what would then be the Communist world would, at the very least, be equal to the industrial strength of the free world.

The controversy that engulfs us today has to do with appraisal of the strength of the countries of Western Europe and the less developed countries. There are those who maintain that if these countries would keep their own financial and economic houses in order there would be no need for the further opening of United States markets. Some maintain that if the countries of Western Europe were to distribute their wealth and incomes more widely within their own borders the purchasing power of their people would be so much greater than it is now that they could provide markets for each other's goods. On the other hand, there are many—among them quite a few prominent Western Europeans—who maintain that easier access to the vast American market offers the only real solution to the problem.

PSYCHOLOGICAL ASPECTS OF TRADE

I wish that we knew the correct answer to this question. I wish that we knew the extent to which the problem is economic, the extent to which it is political, and the extent to which it is psychological. About all that we can be sure of is that all aspects of the problem are intertwined and that we in the United States emerge as the villain in the piece—at least for foreign propaganda purposes.

Without drawing any conclusions, therefore, as to the relative merits of the arguments of the "protectionists" versus those of the "free traders," there is much to be said, on purely counterpropaganda grounds, for some real action on the part of the United States toward facilitating the importation of a selected list of typical foreign goods.

It seems to me that we would be derelict of our own self-interest if we should fail to examine closely, on a commodity-by-commodity basis, the competitive impacts of imports upon domestic production in order to determine those areas in which we could permit imports to increase with a minimum of interference with our own economy. The dollar volume of such increased imports would be far less important than the psychological effects that such action would have. The enactment and implementation of section 104 of the Defense Production Act which prohibited the importation of foreign specialty cheeses, together with other actions aimed against the importation of such minor products as briar pipes, fur-felt hats, and garlic had an adverse effect upon Italian-American relations far in excess of the value of the total trade involved.

WHAT WOULD TARIFF REDUCTION MEAN

In 1950, shortly after the outbreak of hostilities in Korea and at the request of this committee, I undertook to prepare an extensive study, on a commodity-by-commodity basis of what the effects of temporary trade barrier suspension would be. The following year I did the job over again, this time on my own and using 1951 figures, and the results of this study were recently made public in book form.[1] Working with the full, but informal, cooperation of the commodity experts and economists of the Tariff Commission and other agencies, I estimated that on the basis of the economic and political conditions then prevailing, imports might increase by as much as 17 percent if all United States tariffs were to be suspended simultaneously. If import quotas also were to be suspended, together with domestic price supports, the increase might be as much as 25 percent.[2]

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[1] Piquet, H. S., Aid, Trade, and the Tariff (New York, T. Y. Crowell Co., 1953).

[2] Assuming that the inflationary conditions prevailing in 1950 and 1951 were to continue for at least 3 years, and assuming further that the suspension would be temporary rather than permanent. No account was taken of relative foreign supply elasticities, although I did endeavor to take into account what commonsense seemed to indicate would be the conditions of demand in the United States. The estimated increases in imports, on the basis of 1950 data, would range from 5 to 12 percent in the event of tariff suspension alone, and from 9 to 20 percent in the event of both tariff and quota suspension. On the basis of 1951 data, the increases would be 8 to 17 percent and 11 to 25 percent, respectively.

If the maximum estimated rate of increase is applied to 1953 imports, the temporary suspension of all tariff duties (but not import quotas) would indicate an increase in imports of $1.8 billion, or about the same as the estimate for 1951. The contracting adjustment apparently now taking place in the United States economy would necessitate the lowering of these estimates for 1954, but probably to not less than $1.5 billion.

If all tariff duties were to be removed permanently, rather than temporarily, the increase would be greater since foreign exporters would then know that the penalty for success in selling in the American market would not be a reimposition of trade barriers. It would be most difficult to measure the probable effects of complete tariff removal. Staff members of the Treasury Department recently made such an informal estimate, by way of checking the figures for temporary suspension contained in my work, and concluded that after the lapse of a few years imports might increase by as much as $3.5 billion if all tariffs and quotas were to be removed. This figure is about 40 percent higher than the estimates that I made for temporary, across-the-board suspension. If this estimate is applied to 1953 imports, it would indicate that imports might increase by as much as $2.5 billion in the event of the abolition of all tariff duties (but not quotas).

But, we have been talking about tariff suspension and tariff removal. It would be more realistic to talk in terms of tariff reduction. If all tariffs now in effect were to be reduced 50 percent it would appear, on the basis of these various estimates, that imports might increase by about $1 billion after the lapse of a few years.

VULNERABILITY TO INCREASED IMPORTS [3]

Even if all tariffs were to be suspended, the proportion of the total domestic market that would be supplied by imports would be small, and the area of likely displacement of domestic production would be very small.

The great bulk of American industry, agriculture, and mining would not be directly affected by such suspension since about 95 percent of the gross national product is consumed at home and not more than 4 percent of the country's large consumption consists of imported goods. Such large segments of the industrial economy as the steel industry, the construction industry, much of the chemical industry, many of the industries producing machinery and metal products, electrical goods, and automotive equipment as well as the food-processing and clothing industries, and many others, scarcely would be affected by increased imports.

Some of these groups, in fact, would be benefited by the greater ease with which they could acquire certain imported raw materials if tariffs were no longer in effect. Such large producers for export as the automotive industry, the producers of many types of industrial machinery, certain producers of chemicals, the petroleum industry, and producers of motion pictures would find their export markets enlarged. Also, dependence upon exports is particularly great in the agricultural sector of the economy.

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[3] Assuming temporary suspension of all tariffs and the continuation of conditions that prevailed in 1951.

Almost two-thirds of all dutiable imports, in 1951, consisted of products that are not highly competitive with domestic production. At least, the total displacement power of such imports would appear to be small. The other one-third comprises imports which, after tariff suspension, would account for between 10 and 90 percent of domestic consumption. This is the area in which it is presumed that imports would be most competitive. This is not to say, however, that all imports in this category would have an immediate and injurious effect upon domestic producers, but only that this would be the area in which claims of injury would be most likely to occur.

Injury is an individual matter and it can sometimes occur even when imports of a product are small in comparison with domestic production. The number of individuals and establishments who would be injured, however, undoubtedly would be small even if all tariffs were to be removed and whatever measures might be taken to facilitate their adjustment to increased imports would not be burdensome upon the economy as a whole.

Producers who probably would be hardest hit by increased imports would be those who use a relatively large proportion of labor in production, those who supply a demand that is inelastic or declining, and those who cannot expand production to meet increased demand as easily as can their foreign competitors. Among the lines of production in which there might be substantial temporary displacement of domestic production by increased imports are the following (I might say this is based on a study made at the request of this committee in 1950 on what could be expected in the case of temporary tariff suspension.)

(The list referred to follows:)

	Duty (ad valorem equivalent)	Percentage of total consumption supplied by imports after tariff production suspension	Estimated domestic production, 1951	Dutiable imports, 1951	Estimated percentage increase in imports
	Percent	*Percent*			*Percent*
Knives with folding blades	33–181	14	$18,000,000	$693,000	100–300
Scissors and shears	41–84	14	22,500,000	892,000	100–300
Leather handbags	14–25	14	75,000,000	2,961,000	100–300
Linen fire hose	28	13	1,000,000	39,000	100–300
Fur-felt hats	60	12	75,000,000	2,623,000	100–300
Bicycles and parts	11–15	14	63,400,000	5,013,000	50–100
Musical instruments	20	10	175,000,000	12,775,000	25–50
Embroidered linen handkerchiefs	49	17	8,500,000	1,126,000	25–50
Leather gloves	25–74	23	45,000,000	3,050,000	100–300
Earthenware and chinaware. Table and artware	32–66	50	120,000,000	30,237,000	100–300
Coarse linen fabrics	40	61	3,000,000	1,160,000	100–300
Hemmed linen handkerchiefs	26	36	7,000,000	976,000	100–300
Hand-blown glassware	39	37	31,400,000	4,468,000	100–300
Levers lace	32–65	38	30,000,000	9,318,000	50–100
Axminister rugs	28	34	45,000,000	10,235,000	50–100
Dental and surgical needles	18–40	24	1,000,000	157,000	50–100
Wool wearing apparel (knit or crocheted)	24–41	2–79	200,000,000	19,698,000	25–50
Rayon staple fiber	17	28	150,000,000	38,512,000	25–50
Motorcycles	10	41	9,083,000	3,539,000	25–50
Clay floor and wall tile	26–41	9	71,300,000	1,749,000	100–300
Woolens and worsteds	33	7	1,085,000,000	43,388,000	50–100
Crude Barytes	35	17	7,828,000	419,000	100–300
Apparel wool	15	81	260,000,000	544,000,000	50–100
Cigar filler tobacco	13–18	34	85,000,000	20,659,000	50–100
Edible nuts, domestic types (almonds, walnuts, filberts)	35	18 67	52,200,000	9,200,000	50–100
Flower bulbs	[1] 7	30	([2])	9,565,000	25–50
Oats	5	5	1,112,698,000	42,195,000	25–50
Prepared pineapples	6	17	65,000,000	3,700,000	25–50
Fresh or frozen fillets	9	52	56,284,000	30,783,000	50–100
Vermouth	10	52	10,000,000	4,736,000	50–100

[1] Estimated.
[2] Not available.

Mr. PIQUET. In the event of complete, but temporary, tariff suspension it is probable that not more than the equivalent of 200,000 workers would be forced to adjust to new lines of production because of increased imports.[4] If tariffs were merely to be reduced, particularly on a selective basis, the number of workers who would be forced to adjust would be even smaller. These, of course, are only estimates but they indicate the order of magnitude of the problem.

The policy question that confronts us is whether imports should be further restricted in order to avoid injury to anybody or whether the Nation should decide which new imports are essential and to facilitate adjustment to them. The larger question is whether it is more important to eliminate the necessity of any and all economic adjustment to increased imports than to undertake the adjustments needed to assure the functioning of a truly international economy.

[4] The Bureau of Labor Statistics arrived at this estimate by translating into terms of labor man-years my own estimates of the likely increase in imports in the event of temporary tariff suspension under conditions prevailing in 1951. For a description of the techniques whereby I arrived at my estimates of increased imports, see Piquet, H. S., Aid, Trade, and the Tariff (New York, T. Y. Crowell Co., 1953). For details as to the translation of these estimates into labor equivalents see Staff Papers of the Commission on Foreign Economic Policy (Government Printing Office, Washington, D. C., now in press).

Chairman WOLCOTT. Thank you, Mr. Piquet.
Mr. Claudius Murchison.

STATEMENT OF CLAUDIUS MURCHISON, ECONOMIC ADVISER, AMERICAN COTTON MANUFACTURERS INSTITUTE

Mr. MURCHISON. Mr. Chairman. Both the President's report and the report of the Commission on Foreign Economic Policy noted the great improvement in the dollar position of foreign countries and viewed with satisfaction the contribution which the foreign economic policy of the United States had made to this improvement. With respect to future policy, each report was notably deficient in its discussion of two problems of major interest.

The most urgent objective in foreign economy policy is to restore free exchange markets for the world's key currencies and to aid in the establishment of these mechanisms and concerted policies which will assure currency interchangeability on a stable basis. Without such action the attainment of multilateral trade and the sloughing off of a strangling trade and exchange restriction is impossible. Yet the Commission's report gives only the most casual treatment to the problem, recommends American encouragement of the objective and suggests the possibility of lines of credit in the Federal Reserve banks to support the venture. It expresses the view that the problem was the primary responsibility of the countries concerned.

As to future tariff policy, the President's Economic Report quite naturally sidesteps the question because of the impending report of the Randall Commission on that subject. Although the Commission does make certain definite tariff recommendations, they are in the nature of ex cathedra pronouncements. There is no attempt to relate these suggested tariff changes to their effects upon the American economy and no analysis is made of the probable effects on world trade other than generalizations relating to the well-battered subject of dollar scarcity. No economic criteria of any sort are set up as a guide to the Congress in the construction of a practical and economically sound tariff policy.

Accordingly my comments will be directed toward these manifest deficiencies in the two reports.

With respect to the establishment of currency interchangeability for the world's key currencies, the United States is the nation most vitally concerned. The accelerated accumulation of foreign gold and dollar holdings proves beyond doubt that declining American exports are not to be explained by so-called dollar scarcity. In major part, the decline is due to trade and exchange restrictions and the almost universally practiced system of bilateral barter agreements or trade and payment accords. These have not only curtailed American exports through the usual exchange procedures, they have also, by methods of barter, detoured around the American export market. The swapping operations of foreign countries do not lend themselves readily to American participation.

Although in scattered instances there has been during the past year some relaxation of restrictions against American goods, they are relatively small in their overall significance and have been largely offset by other instances of more intensive restriction.

With very few exceptions foreign countries no longer can justify these practices by claims of dollar scarcity. The major reason for the continuance of restrictions against American goods is because the American dollar is preferred to all other currencies for universal exchange purposes and its ready convertibility into gold. The currency of no other country is universally available or universally acceptable in every type of international transaction. Consequently, dollars are wanted and avidly accumulated for the purposes of world exchange, not of traditional dollar exchange.

Under present conditions dollar exchange has become world exchange and there exists every incentive for its continued accumulation irrespective of any uses which the dollar may have in the purchase of American goods.

There is no public evidence that foreign countries generally have visualized any ceiling for their dollar accumulations. On the other hand, much is being said about future world uncertainties, particularly the uncertainty of continued prosperity in the United States. Since business recession in the United States is always reflected in a decline of imports, the fear is expressed that future dollar supply will diminish. This uncertainty and many others give foundation to foreign belief that the right dollar policy is simply to accumulate more and more.

Such a policy, of course, becomes a strong force in bringing about the very recession which foreign countries fear. The accumulation of dollar surpluses is accomplished only by reduced purchases of American goods and services. Dollars cannot be held back for so-called reserve purposes without a corresponding cutting down of American exports.

In 1953 foreign gold and dollar holdings were increased by $2½ billion, all of which were gained from current transactions with the United States. In 1954 the accumulations promise to be much greater. During the current year will be felt the full impact of foreign dollar supply of our offshore procurement program. This program, unlike the other types of military aid, pours out dollars into foreign countries without an offsetting volume of American exports. In view of this, surplus dollar receipts in foreign countries in 1954 can hardly be less than $3 billion and could well exceed $3½ billion, assuming that no important change occurs in the American import level. Such amounts as these cannot possibly be extracted from the flow of dollar funds without seriously damaging the volume of American exports. The depressing consequences are already being felt and would be vastly more serious were it not for the surplus disposal programs which our Government has put into effect.

It is indeed a strange anomaly that, at a time when the surplus dollar receipts of foreign countries are running at a rate exceeding $2½ billion a year, the United States should be spending additional billions as gratuities or subsidies to move our goods into foreign markets. The anomaly is all the more startling when we consider that the total of foreign gold and dollar holdings is at a tremendous figure of $23 billion, which is a billion dollars more than the gold supply of the United States and which represents an all-time high by a very wide margin.

It is of course true that some countries have not shared correspondingly in the greatly improved dollar position. But a much more important fact is that the countries which have enjoyed a phenomenal expansion of dollar holdings are the very countries which are associated mostly with the illusion of dollar scarcity. The continental countries of Western Europe taken alone have gold and dollar assets of approximately $10 billion.

In appraising the significance of foreign gold and dollar accumulations, it is highly important to note that they fall far short of indicating the total gain in net dollar position. These accumulations have occurred after debt payments of some $700 million a year have been made and after the use of considerable dollar amounts for repatriation of American-held foreign securities and for purchase of long-term American securities, especially Government bonds, in very considerable amounts.

Having noted the inevitable consequences of this development on the American export trade, we shall now view it from the standpoint of its relationship to the strength of the American monetary system. The presence in the New York banks of approximately $12 billion of foreign-owned balances and the prospect that these balances may be increased by an additional $2 to $3 billion in the current year is not a situation to be lightly dismissed. These balances, unlike balances held by American residents, are fully redeemable in gold. No one supposes that the greater part of these deposits will be used to purchase gold. In that event the United States would, of course, confront a grave monetary crisis.

It is possible, however, to visualize the conditions in which heavy gold takings would occur. From the standpoint of a particular country, the basic test is the country's need for dollar exchange as distinct from gold holdings. When the point of exchange adequacy is reached, the question of alternative uses would determine the disposition of balances above that point. These alternative uses, such as the repatriation of foreign capital, or the making of new foreign investment, must be weighed against the desire of the country to build up its own gold holdings as a factor of strength in its own monetary system. The urge to do the latter is inherent and basic in every country. It would be quickly activated by the appearance of many types of international uncertainties.

Without attempting any prediction, it's a reasonable inference that the continuance of sole dependence upon the United States as the basis of world exchange will invite a continued growth of dollar balances. Since these dollar balances represent obligations of the United States to convert into gold at 100 percent face value, their continued growth at the present rate will in the near future reach the point where the United States can meet its foreign obligations only through heavy gold losses. It would be utterly naive to say that these losses could not be great enough to weaken the foundations of our monetary system.

The facts of the international exchange situation brand as a dangerous fallacy the doctrine that the United States should change its import policies for the purpose of adding further to the outflow of dollars. If dollar accumulations are already excessive, and becoming more so, at the obvious expense of American trade, how can the situation be remedied by more of the same?

If there is to be a true remedy, it must start with the proposition that the United States dollar should not have to bear the entire burden of world exchange. If and when other countries who are now ready, or nearly so, take over their proportionate share of this exchange burden, the incentives to excessive dollar accumulations will be correspondingly reduced, and such excessive accumulations will be released to perform their proper function in the purchase of American goods and services.

In order to undertake the responsibility of free interchangeability of its currency on a stable and continuing basis, a country must meet three qualifications: (1) A condition of basic equilibrium in its overall payments balance; (2) a condition of internal economic stability; (3) adequate exchange reserves consisting primarily of working funds in the form of convertible foreign balances.

Countries which now meet these requirements are the United Kingdom, Switzerland, Germany, Holland, Belgium, and Sweden. The free and open interchangeability of these currencies, added to the already existent freedom of exchange of American and Canadian dollars, would provide the means of multilateral settlements for 60 percent or more of total world trade.

At the same time it would strengthen the incentives of other countries, such as France, Italy, and Greece, to shape their courses toward like action.

To the extent that free and open interchangeability of currencies is established, the removal of restrictive and arbitrary exchange and trade controls almost automatically occurs. Multiple exchange rates of necessity disappear. Private enterprise is permitted to keep and utilize the proceeds of foreign trade transactions and is no longer subject to restraints in its choice of market or commodities. The need for barter agreements would disappear. Exporters and importers would be free to undertake transactions throughout the entire area of multilateral trade. It is thus obvious that the attainment of a wide area of currency interchangeability is not only vitally necessary to the trade of the United Sates, it is also the key to the expansion of world trade.

The objective is one which will of course require some form of concerted action involving the United States and other participating countries. This concerted action will need to be implemented by an international agency whose functions and operating procedure would be quite different from those of the International Monetary Fund or any other existing international financial institution.

UNITED STATES TARIFF POLICY

As to future tariff policy, the President's Economic Report deferred to the report of the Commission on Foreign Economic Policy. Although the Commission emphasized the importance of maintaining a strong domestic economy and advocated a retention of the escape clause and peril point devices as safeguards, it nevertheless recommended a course of downward revision in tariff rates. It disavowed any responsibility relative to particular rates on specific products. Yet its recommendations in effect do just that. The recommended lowering of all tariffs above the 50 percent ad valorem rate to that level is of course an attack on particular rates. The recommendation of annual overall rate reductions of 5 percent per year for 3 years is of course an attack on particular rates. This is all the more true because the procedure disregards the basis or the justification of particular rates and in thus dealing with them becomes a procedure of discrimination.

While a tariff reduction of 5 percent, or 10 percent, or 15 percent might not be particularly damaging for one industry, it might be completely destructive for another.

One would not find fault with the proposal for extensive Tariff Commission studies for the purpose of better commodity classifications and readjustment of tariff rates where they are economically justified. But I am left with the distinct impression that this is more or less of a residual recommendation and definitely subordinate to the primary purpose of getting all rates down as speedily as possible.

As a major reason for this program, the Commission advances the familiar balance of payments argument. It is thinking in terms of the alleged dollar scarcity and the alleged dependence of our exports on a further expansion of imports.

This type of reasoning is not in line with actual international exchange developments. The presently existing exchange situation together with the events of the past 2 years, prove conclusively that the balance of payments argument is no longer applicable to American tariff policy.

The only alternative argument which the supporters of lower tariff can bring forward is the obsolete doctrine of comparative costs. This doctrine, which is the pet of many economic theorists, had never been applied to the commercial policies of any country. No more astonishing event could happen than the spectacle of any country consciously giving up an industry or any other type of activity on the theory of comparative costs.

As used by the freer trade advocates, the doctrine is tested by price comparisons of individual commodities. As used by nations, however, the doctrine is tested by the value of an industry to its domestic economy.

The United States will hardly conclude that it should give up the growing of cotton and wheat because they can be produced 2 cents a pound or 10 cents a bushel more cheaply in foreign countries. On the contrary, we are certain to conclude that their growing will be continued here because they produce the livelihoods of 20 million people and the raw material base for a high percentage of American industry.

So simple an implication growing out of two commodities suggests a wholly new approach to the problem of tariff policy. Since the days of Mr. Taussig, revolutionary things have happened in the American economic system. The system has become highly integrated; it is an economic entity. Every part of it is closely interwoven with every other part. Every price is a composite of cost elements originating throughout the entire system. Every wage rate is a resultant of the interplay of economic and social forces operating throughout the entire system. Occupational differences are merely deviations occasioned by the specifications of the job in terms of work done, conditions of work, and gradations of skill. Despite these occupational differences, all of these wage rates are definitely interwoven with the total wage structure. The essential unity of the price and wage system is further indicated by the virtual uniformity of the cost of living throughout the United States, even when full allowance is made for slight regional differences. The unity is still further indicated and at the same time strengthened by the great structure of basic agricultural supports which are tied to the general price structure by legal standards of parity.

Just as our economic system is an entity through price and wage relationships, it is likewise an entity in its functional operations. Viewed vertically, the American system is one in which the processing operations are carried forward from the primary to the final finished stages. This operation draws into the great industrial machines from 80 to 90 percent of the total raw material production of the United States. As this great processing operation moves forward, the completed products of each stage become the working stock of the next, until the finished goods reach their ultimate purpose. In this succession of stages, each one is just as important as the one which precedes and the one which follows. Stated differently, the sequence of operations in American industry are the links in a structure of complete mutual dependence.

But this is only the vertical view. Looking at the system laterally we find that each successive operation reaches to the right and to the left for its supplies and its markets. For example, as the textile operation moves forward it needs annually $800 million worth of chemicals and from $3 to $5 million worth of machinery. Its every activity calls for the use of transportation, power, and banking. Like every other industry it depends upon the wages paid by others as well as by itself to provide the purchasing power for its products.

The tightly integrated structure of American industry means that every individual part is in a real sense a contributor to the operations of every other part. Each industry does much more than to provide for its own employment. It is responsible for the ability of other industries to employ. This condition of constructive mutual dependence is, on the reverse side, a condition which assures that the economic hardship of one industry will be transferred to others. The interconnecting links in the system not only provide its vitality, they also serve as lines of repercussion to carry throughout the system the shocks of economic crisis, depression, and unemployment.

Thus viewing the structure and operations of the American system, the concept of relative values undergoes a radical change. The slight differences in the comparative prices of selected American and foreign commodities no longer seem important.

We look rather for the criteria which tariff policy can use to protect the values which lie in the great production power and the unparalleled wage structure of the American economy.

These the Randall commission failed to supply.

Chairman Wolcott. Thank you very much, Mr. Murchison.

Mr. Saxon.

STATEMENT OF O. GLENN SAXON, PROFESSOR OF ECONOMICS, YALE UNIVERSITY, NEW HAVEN, CONN.

Mr. Saxon. Mr. Chairman and members of the committee, I must apologize for not having a statement to give you this morning to follow. Unfortunately, I lost it on the train. Someone picked up my briefcase by mistake. Therefore, it will be necessary for me simply to speak extemporaneously and briefly.

I think the whole problem of foreign economic policy in the United States should be diverted toward understanding, first of all, what is the underlying situation which has disrupted international trade over the past decade or more; and, secondly, what is the proper solution for it.

Between 1870 and 1930 the world operated upon a gold-standard basis, with practically all major currencies of the world interchangeable at fixed ratios to gold, which meant that we had in effect a world currency with prices, with the exception of tariff and transportation costs, the same in terms of gold throughout the world.

For decades under that system, we had multilateral trade and multilateral settlements, whereby, for instance, South America sold to the United States large quantities of raw material; Europe sold to South America large quantities of manufactured goods, and in turn Europe bought from the United States what she needed and paid for what she needed from the United States with the proceeds of her sales to South America.

This is a good illustration of multilateral trade, and until the world returns to multilateral trade, there can be no overall expansion or stability of international relations. Merely to open up American markets to European exports would simply perpetuate the very problem that we are trying to solve. It would mean that we would be encouraging Europe to continue selling into the American market where we do not need her products, and she would no longer attempt to regain the markets that traditionally she has held over the centuries, which are the markets of India, of Asia, of Africa, and of South America, largely for the type of merchandise which we do not consume in this country.

Until you return, therefore, to multilateral trade, you cannot do more than simply open up and divide our markets and prevent Europe from regaining her own traditional outlets which were largely lost during and immediately following World War II.

In order to accomplish that multilateral convertibility of currencies, there are two things that can be done. One is to free exchanges on free markets so that they may be bought and sold just as we did for decades on free markets, and not have them arbitrarily overvalued in terms of American dollars by stabilization funds and agreements between nations. That merely creates black markets. It accentuates and perpetuates the present imbalance in international trade.

The surest and permanent way is to encourage the rest of the world to return to convertibility of their currencies into gold. Most of the major nations of the Western World, outside of the British Empire, are in a position where they could, within a reasonable time, come back to gold. The premium on gold has disappeared. There was a time in the past few years when gold was selling at $40, $50, $60, and $70 an ounce. In the last year and a half, it has returned to a level of $35 and a fraction, which is merely the transportation cost to the United States. In addition to that, the inflationary period that the world has been in since 1939 has practically ended throughout the world, with the exception of Japan. I estimate that there are 12 to 15 nations in the Western World that could return to gold in the next 3 years, if we give them the encouragement to do so. And by general convertibility, exporters could sell their products anywhere in the world, and not merely on the American market.

But our continued overvaluation of foreign currencies in terms of dollars, our continued refusal to return to gold ourselves, to domestic convertibility, and encourage others to return to gold abroad, simply will mean the continuation of their demand for dollars and the opening up of our markets. By opening our markets to greater imports to satisfy European demand for our dollars, we are going to be encouraging the continuation of this imbalance, and at the expense not of the American Treasury nor the general taxpayers, as our past aid has been, but at the expense of selected segments of our industry and agriculture and the communities in which they operate and the people whom they employ.

Already Europe has shown in the last year, particularly in the last 6 months of the year, her ability to export extensively to this country at a much greater rate than any time in the past. There has been full recovery in her industry. Her bombed out and dismantled plants have been replaced, largely at American expense, with the most technologically improved equipment. Wage rates in the Western World range from only one-tenth (in Japan) to one-third (in Belguim and Holland) of prevailing wage rates in the United States, and though our overall productivity is much greater and sufficiently high to overcome that wage handicap in most areas, there are many areas in which we cannot overcome it by increased productivity. To break down our tariff barriers at this stage of disrupted world trade relationship, when European nations as a whole, as well as Japan, have much greater relative advatages today than they had prewar, would be a grave error. Wage rates in Europe have not gone up fully to compensate for increased costs of living as they have here; they have not increased to compensate for the increased productivity of industries abroad as they have been. As a consequence, foreign producers can flood our markets today in many areas with merchandise which would destroy or weaken some of our growing and expanding, more or less infant type of industries, as well as our defense industries.

I think we must be realistic and face the fact that our tariff structure does need radical revision. It needs a careful study product by product, industry by industry, and there are many areas where we can, to our own advantage, as well as the advantage of European producers, reduce tariffs. There are other areas where they should be correspondingly raised, if we are going to remain strong and protect our defense industries and maintain a sound economy in the United States. Unless we do that, the Western World will be helpless.

Fundamentally, the problem is, however, return to convertibility of currencies, either by free markets or by return to gold.

I was interested in reading some of the reports of the hearings before the Randall Commission. Mr. Bernard Baruch spoke very emphatically on that subject, the necessity, as a prime factor, of return to convertibility. He emphasized that tariffs are relatively unimportant in the present situation. And that is very true. Most of the imports that are threatening the United States today are coming from nations that are discriminating against American products, discriminating against German and Japanese products. They are also subsidizing their exports by exchange manipulations, exchange subsidies.

as well as direct cash subsidies and other indirect subsidies such as waiving of taxes for exports, allocation of raw materials below their cost to export industries.

We as a Nation do not engage in many of those practices. Yet the Western World has consistently refused to break down the discriminatory tariff barriers that they have raised and the discriminatory import quotas that they have established against the United States.

There has been an inclination, too, in the discussion of this field generally, to confine the study to the European situation. We have a worldwide situation which ought to be considered. For instance, consider the position of Germany and Japan. Their export outlets in the past have been pretty largely behind the Iron Curtain. They now find themselves faced with discriminatory tariff barriers of the Western World.

Are we going to open our markets to compensate for that, or are we going to force them to go behind the Iron Curtain, if they cannot export, as they must export, to live? Consequently, this is not a question of merely European-United States relationships. It is a question of international relationships as a whole, and until you get convertibility of currencies on a gold basis, you are merely going to be dividing our markets, not at the expense of the American taxpayers as a whole, as the past foreign-aid programs have been, but at the expense of selected segments of agriculture and industry.

Thank you.

Chairman WOLCOTT. Thank you, Dr. Saxon.

Mr. Cope.

STATEMENT OF ELMER F. COPE, INTERNATIONAL REPRESENTATIVE, UNITED STEELWORKERS OF AMERICA

Mr. COPE. Mr. Chairman, I think I can cover my statement in 10 minutes, because I have designed it for that purpose.

The topic assigned to me in this discussion is Adjustment Problems. I have taken this to mean "adjustment problems arising from injury caused by increased imports."

No single factor involved in the discussions of our tariff and trade policy has loomed so important as the impact that increased imports into the United States would have on the American economy—on industries, communities, and the employees that would be affected. The determination of our tariff and foreign-trade policy seems finally to center on the question of the displacements and domestic economic dislocations that allegedly would take place if tariffs were lowered and foreign imports were increased. After all other arguments are exhausted, the case for high tariffs rests on the contention that a more liberal trade policy would destroy a large segment of American industry and would cause mass unemployment among the workers of the United States.

What are the facts? How many workers would be threatened with the loss of their jobs through the competition of commodities imported because of a reduction in tariffs? The amazing thing—at least, the amazing thing to me—is that there has been so little effort made to determine the answer to this question. Many rash statements have been made as to the number of workers that would be affected. To my knowledge, it was not until the Commission on

Foreign Economic Policy found itself confronted with the problem that an honest-to-goodness effort was made to get at the facts. It was found that no reliable body of facts existed. Efforts were made through the proper governmental agency to establish these facts. Although the time allotted and the resources were so limited that a complete study could not be made, the information assembled points to some significant conclusions.

Given a hypothetical reduction of 50 percent in our present tariffs, it seems likely, on the basis of the study, that not over 100,000 workers would even be threatened with loss of their jobs. One hundred thousand is approximately one-sixth of 1 percent of the total labor force. This equals about one-sixth of the annual growth of the labor force over the past several years. No one is proposing a sudden lowering of tariffs by 50 percent. Consequently, the problem is not one of great magnitude, when viewed in terms of the total labor force. Furthermore, product diversification and other adjustments on the part of the industries affected could be depended upon to reduce this figure considerably. This gives no consideration to the new jobs that would be created by the increase in our exports that would follow a reduction in our tariffs.

Nevertheless, those individuals who would be affected adversely, even though they constitute only a small proportion of the total working force, would find the going difficult without assistance. They should be assisted by the Federal Government to adjust to whatever situation developed. This problem must be met head on and solutions provided in order that our foreign trade might be expanded. In the past the extent of these hardships has been grossly exaggerated and used as an excuse for maintaining high tariffs. The peril point and escape clauses in our present law, with no provisions for assisting those adversely affected, limit the expansion of our foreign trade.

Although it is not likely that injury would be widespread if, in the national interest, tariffs were reduced beyond the points specified by the Tariff Commission under the peril-point provision, or if tariffs were not restored through escape clause action, some jobs might be lost, some companies might lose markets, and some communities might suffer increased unemployment. Therefore, it is essential that adequate provisions be made in the law for facilitating adjustments to increased imports.

These adjustments can be made. Since any injury would be the result of action taken by the Federal Government, it follows that the Federal Government should assume the responsibility to assist those injured to adjust to a changing situation when required.

Such a program for Federal assistance was submitted to the Randall Commission by one of its members, Mr. David J. McDonald, president of the United Steelworkers of America. I am sure that most of you are familiar with the admirable proposals Mr. McDonald made and are aware that they were turned down by this Commission by a 16 to 1 vote. I might interpolate that although 16 voted against it, there were 4 or 5 who had sympathies for it and so stated, but could not go along with the whole proposal. Yet it is my feeling that by turning down Mr. McDonald's proposal for an adjustment procedure to care for what injuries might be caused by increased imports, most of the liberal tariff provisions leading toward tariff reductions were made meaningless, or practically meaningless, if I can modify the word "meaningless."

For the remaining time I have, I wish to summarize the proposals made by Mr. McDonald and I would request that his entire submission to the Commission on Foreign Economic Policy on this subject be incorporated in the record of these discussions.

Mr. Chairman, the statement I suggest be added is simply the short statement here of four pages. I have not included it in my statement because of the brevity of time. I am asking that it be incorporated because I refer to it constantly through the balance of the paper. [The material referred to appears at the end of Mr. Cope's statement.]

According to the proposal:

When the President finds it in the national interest to lower a tariff below the peril point, or to maintain a tariff concession despite a finding of injury or threat of injury by the Tariff Commission in an escape clause action, the affected companies, their employees, and the communities in which they are located should become eligible for assistance under an adjustment assistance program.

The best kind of an adjustment would be for the companies in the industries affected to diversify their output so that they produced commodities less vulnerable to important competition; or, the communities involved could broaden their economic base so that other jobs would be provided for their workers. In doing this, if companies or communitites required aid in the form of technical assistance to carry them over the crucial period of adjustment, then such help should be provided. The Federal Government should provide funds to pay in part the cost of the services of consulting engineers, economists, marketing experts and other technicians who might be of help. If financial assistance were needed to do the job of helping these industries and communities to adjust to the change, then Federal funds should be made available to assist them. In some cases the privilege of accelerated tax amortization on new plants and equipment might be an inducement to introduce new products or the expansion of production in lines not affected by tariff changes. Companies and communities that are found in need of assistance should be given special consideration in the letting of Government contracts.

It was suggested that since the export industries stand to gain through the expansion of our foreign trade, they should make an effort to establish new plants in areas that are hit by import competition.

These aids, and perhaps others not mentioned, would do much toward solving the problems arising because of increased imports resulting from reduced tariff barriers.

However, there inevitably would be some workers who would become unemployed and who would need assistance to tide them over until such time as other employment was provided. These employees should be eligible to receive a special unemployment compensation. This could be administered by our present Federal-State machinery but financed by Federal funds. Since present unemployment insurance benefits are inadequate to meet the temporary needs of these displaced workers, the benefits provided should be increased to an amount more nearly equaling their lost earnings. The period of coverage should be extended to enable these workers to have assistance until such time as they obtained new jobs. States where the impact of such unemployment would fall the heaviest, should not be required to carry the full burden. It should be distributed throughout the economy of the country through Federal aid.

Without a doubt, some of these workers affected by import competition would face difficult adjustment problems. In addition to the unemployment insurance provisions, intensive counseling and placement programs should be instituted to help these workers to locate other jobs. Special training allowances to enable employers to retrain affected employees should be provided.

In cases where other jobs were found available in communities other than that of the worker displaced, special moving allowances would facilitate his making the change to a new job.

Perhaps the most difficult group required to make the adjustment would be the older workers. Provisions should be made for those eligible to receive retirement benefits before they reach 65, if they elected to retire. The old age and survivors insurance program should be amended to provide this assistance without prejudice to their rights at regular retirement age.

In conclusion, I want to agree with this statement made by Mr. McDonald:

> I believe that such a program is not only workable but that it is in the American tradition. I am not impressed with the argument that for the Government to embark upon such a program would be interference with the working of the free-enterprise system. The subsidy principle is not new. We use it every day, ostensibly if not in fact, in the national interest. The tariff itself is one of the most pervasive subsidy arrangements imaginable. We use subsidies in agriculture. We use them to stimulate and develop air transportation. We use them to prevent postal deficits. We use subsidies for these and many other purposes. In fact, the report of the Randall Commission even proposes indirect subsidies for those who are potential foreign investors. I believe that the subsidy principle is better than the protective tariff principle because it is open and aboveboard and not hidden, as are tariffs.

Chairman WOLCOTT. Thank you, Mr. Cope.

PROPOSAL ON ADJUSTMENT IN CASES OF INJURY CAUSED BY INCREASED IMPORTS SUBMITTED TO COMMISSION ON FOREIGN ECONOMIC POLICY BY MR. MCDONALD

Neither the present law nor this report makes provision for workers, companies, and communities that might face injury if the President decides it to be in the national interest to lower tariffs beyond the points specified by the Tariff Commission under the peril-point and escape-clause provisions.

It is not likely that such injury would be widespread, but the initial effects upon those concerned might be serious. Some jobs might be lost, some companies might lose markets, and some communities might suffer increased unemployment. As I stated in my comments on the tariffs and trade policy section of this report, it is essential that adequate provision be made in the law for facilitating adjustments to increased imports.

I am satisfied that the necessary adjustments can be made. But I cannot agree with the majority view that the Government has no responsibility to assist those injured in making them. Unemployment of any magniture is of concern to the Government. Unemployment caused by Government action, as in the lowering of tariffs, should be of particular concern to the Government.

The scope of this adjustment problem is indicated by estimates of potential worker displacement made for this Commission. Given a hypothetical reduction of 50 percent in our present tariffs, and the increased imports which would result from such reduction, not over 100,000 workers might be threatened, directly or indirectly, with loss of their jobs. Product diversification and other adjustments on the part of the companies concerned can be depended upon to reduce this figure. But while the total number involved should prove relatively small, the impact on the workers who are affected might be severe.

During periods of rapid industrial expansion, the problem of adjustment to increased imports should be relatively easy. On the other hand, during periods of easing industrial activity, it may not be possible for the growth industries to absorb all of the workers from those industries which are in competition with imports. Owing to the comparatively weak competitive position of the industries which will suffer from imports, they are likely to suffer most in time of general business retrenchment. It is during such periods that it is more important for the Government to provide assistance to industries which find it necessary to make adjustments to any loss of markets resulting from increased imports.

Study of the extensive experience of all segments of our economy in adjusting to dislocation from causes other than import competition leads to the conclusion that adjustments of a magnitude far greater than this have been, and can be, made. Indeed, on the basis of past experience, the areas of our economy concerned should be stronger after this adjustment than before.

It is proposed that a policy be adopted by the Congress to assist and promote necessary adjustments by companies, workers, and communities whenever injury results from increases in imports traceable to tariff changes.

ELIGIBILITY FOR ADJUSTMENT ASSISTANCE

When the President finds it in the national interest to lower a tariff below the peril point, or to maintain a tariff concession despite a finding of injury or threat of injury by the Tariff Commission in an escape-clause action, the affected companies, their employees, and the communities in which they are located should become eligible for assistance under an adjustment assistance program. The existence of such a program would provide the President with an alternative to tariff restoration, and it would provide those injured with assistance in making needed adjustments.

PROPOSED ADJUSTMENT ASSISTANCE PROGRAM

The most satisfactory adjustment for workers, companies, and communities affected would be for the managements in the industries concerned to diversify their output into products less vulnerable to import competition. The next most satisfactory solution would be for the communities to broaden their economic base and provide alternative jobs for their workers. What companies and communities need in order to diversify is technical assistance to help determine lines of production which they might economically develop, and financial assistance to help carry the cost of such development. This might be provided in the following ways:

(*a*) Companies and communities affected should become eligible for a technical-assistance program.

This would permit payment from Federal funds of part of the cost of service of consulting professional engineers, economic developers, market researchers, or other technicians whose services might prove helpful. This responsibility might be assigned to the Department of Commerce.

(*b*) Companies and communities found eligible should have access to financing assistance necessary to their adjustment programs.

Expansion or diversification of existing business, or the development of new business, may require additional financing. A large number of communities and several States have established privately financed industrial development corporations, which could be helpful in meeting this need.

Experience indicates that a marginal amount of financing may also be required that is not available from these sources. In such cases, the Small Business Administration, acting within its present authority and existing appropriations, should make its facilities available. If it should be found necessary, the Small Business Administration Act might be amended to permit larger loans if they are required to further this adjustment program. Any such public financing should be supplementary to, and preferably in participation with, private financial institutions.

(*c*) Companies found eligible should have the privilege of accelerated tax amortization on new plant and equipment for the purpose of introducing new products or expanding production in lines other than those affected by tariff changes.

Such amortization should also be offered to any other firms expanding production or establishing new facilities in communities (or their labor market areas) which are found to be eligible for this program. The Internal Revenue Code would have to be amended for this purpose.

(*d*) Companies and communities found eligible should receive special consideration in the letting of Government contracts.

COMMUNITY ADJUSTMENT ASSISTANCE FROM EXPORT INDUSTRIES

Large sectors of expanding American industry have a substantial interest in promoting export trade and, consequently, in lowering barriers to increased imports. Most of these manufacturers are in fast-growing industries and have long-term plans for expanding their plant and equipment. If a number of such firms would undertake to place a relatively small proportion of their branch-plant expansion in areas with present or prospective labor surpluses resulting from import competition, selecting from their expansion plans such operations as could economically be located in these areas and still meet their own production and marketing requirements, the problem of unemployment from import competition would be largely solved.

There would still remain problems of transferability of skills of workers, adaptability of older workers to new industries, loss of accumulated benefits resulting from long seniority, etc.; but experience in many communities indicates that these could be largely solved, given an adequate supply of alternative employment in growth industries. Export industries will presumably grow and prosper with the increased exports that lowered tariffs and higher imports would permit. There is a certain equity in their sharing this growth with the communities and workers whose adjustments would make it possible. Carrying out a program of this kind under private auspices might be done through an industrial development corporation, fashioned after the community and State industrial development corporations but operating on a national scale. The more that private industry can utilize the skills of these displaced workers through this or other means, the smaller the task left to the Government.

ADJUSTMENT ASSISTANCE FOR WORKERS

Employees of companies found eligible for this program should also be eligible for adjustment assistance, in case they are not able to locate alternative employment promptly. This might take the form of a special unemployment compensation program administered through our present Federal-State machinery but financed by Federal funds.

Provision should be made in case situations arise where neither companies nor communities succeed in diversifying to new lines of production and the workers face a major vocational adjustment problem. Present unemployment insurance benefits are inadequate to meet this need. Since this displacement would be the result of our national trade policy, Federal responsibility is clear. States where the impact happens to fall heaviest should not be penalized in a program designed to benefit the national interest.

These unemployment benefits should extend for a longer period than is presently provided, but be limited in duration. Maximum benefits should exceed those now available. Benefits should cease once suitable work is found. If a worker takes a new job at substantially lower pay than his old job, he should be entitled to a supplemental benefit for a limited period to make up part of the difference.

In addition to special unemployment insurance, a fully adequate adjustment program for workers would involve (*a*) an intensive counseling and placement program to help workers locate alternative jobs as nearly as possible equal to their previous employment; (*b*) special training allowances, similar to the current veterans' programs, to finance employers' costs in connection with in-plant training programs or to cover approved courses of training in approved institutions; (*c*) special moving allowances, where a finding is made that a job is available elsewhere and payment of moving expenses up to a fixed amount in an individual case can aid in relocation; (*d*) for any older workers who prove unemployable, provision should be made for eligibility before 65 for retirement benefits under the old age and survivors insurance program, without prejudice to their rights at regular retirement age.

RESEARCH ON THE IMPACT OF LOWER TARIFFS AND INCREASED IMPORTS

To my knowledge, more research was undertaken on the extent of the impact of import increases on American workers, companies, and communities as a result of this Commission's inquiry than has been done at any other time. This is surprising in view of the tremendous interest in the subject and the wide divergence of views on what this impact would amount to.

Time available to us did not permit the collection and review of all the information on the impact of potential imports which we should have liked to have had for the Commission's consideration. More work needs to be done in this area to assist the Congress in the formulation of future tariff and trade policy, and to assist the executive branch in administering it.

It is, therefore, recommended that:

(*a*) Industry-by-industry estimates of potential displacement resulting from tariff reductions be made by a special interdepartmental committee established for this purpose.

(*b*) The probable effect of such displacement on the individual industries and companies involved be analyzed by the Department of Commerce.

(*c*) The probable effect of such displacement on workers involved, by industries and by labor market areas, be analyzed by the Department of Labor.

(*d*) Adequate funds for these studies be made available by the Congress.

Mr. Brown.

STATEMENT OF WILLIAM ADAMS BROWN, JR., THE BROOKINGS INSTITUTION, WASHINGTON, D. C.

Mr. Brown. Mr. Chairman, I do owe an apology to the committee, because I was called upon very late Friday afternoon and had no time to prepare a statement. I have come only with a few ideas and with no figures. After listening to Mr. Murchison, I wish I had the time and foresight to look up the currency reserve figures in some detail.

So, I start with that apology, and also I think I have to apologize a little bit for trespassing on the convertibility problem which has been treated before. Not knowing what was going to be said, I may be guilty of some repetition.

I would like to stress my view that an early return to convertibility is, as has been said here, of vital interest to the United States, but I would also like to stress my view that there are certain things that we have to do in our foreign economic policy which are prerequisites to achieving this convertibility. They are in the field of more liberal trade policy and in the field of credits—standby or stabilization credits.

Some of the major dollar-and-cents interests that we have, I think, in general convertibility, have been brought out, but I should like to repeat what I think are the three major ones.

One is that convertibility greatly diminishes the motivation for trade discrimination. It was certainly not by accident that progress toward reducing trade discrimination in Europe was pretty well stymied before we got interchangeability of currencies in Europe under the European Payments Union. We have, of course, a great interest in having less discrimination against us.

Convertibility is secondly a powerful incentive for sound domestic policies. Countries have to put their houses in order to maintain it. They have become competitive in their trade. Convertibility and inflation do not go together. Inflation produces recurrent difficulties in the balance of payments. We have had much experience since the war with these recurring balance-of-payment difficulties, with the trade restrictions which were used to surmount them, and the increasing need for our assistance under these circumstances if we were to achieve our general objectives. All that has been stressed by earlier members on this panel.

Thirdly, I think it is very important to emphasize that convertibility removes one of the major obstacles to the flow of foreign investment. In my opinion, inconvertibility is perhaps the major obstacle to the flow of foreign investment, and there is no need to elaborate our interest in that.

So for these three reasons, we have strong dollar-and-cents motives for pressing for early convertibility. I would agree that the situation today is more favorable to early convertibility than at any other time since the war. I think the situation is very different from 1947. In particular, if we get sterling convertibility, I am convinced that we will get deutschemark convertibility, guilder convertibility, Belgian franc convertibility, and even possibly Italian lira convertibility. I think there is an outside chance, even, that Germany may jump the gun and be the first currency to be made convertible.

Mr. SAXON. That is right.

Mr. BROWN. I am in disagreement with the idea that British reserves, which are the most important factor in this situation at the moment, are now adequate, or nearly adequate, for sterling convertibility. At the peak of the Korean boom, the sterling area reserves reached $3.8 billion, and by the time the decline in prices was finished after the boom came to an end, they had fallen to about $1.7 billion. That was a swing of about $2 billion in a very short time. It is that order of swing that the British feel they must be prepared to meet if they are to take the risk of convertibility.

If I were to give a guess, I should think the British would feel they could not really take this risk unless they had in their own reserves and in some sort of available supplementary credits, something between $5.5 billion and $6 billion, I think some figure of that sort, although it is only a guess, of course.

Now, if we got sterling convertibilty, I think several other advantages would flow for this country. Although I do not think exchange control was imposed mainly for protective reasons after the war, it does nevertheless provide a form of protection. Protected interests grow up behind it, and the sooner we get rid of it, the less powerful those protected interests will be in demanding some other form of protection after convertibility.

I think that is a strong argument for early action.

A second advantage of particular interest to this country from a dollar-and-cents point of view is that if we get sterling convertibilty and the convertibility of these other countries that I have mentioned, a very strong pressure will be felt by the French to do the sort of thing that we have been urging upon them to do for many years. It will be very inconvenient for the French to operate with the only soft currency in Europe. Personally, I am not as pessimistic about the French situation as many people are. France is a very peculiar country in this respect. Each Cabinet does a little bit toward improving the situation, and finally you come to a time, as in the case of Poincare, between the wars, when you just have to put on the coping stone on the arch. We may be approaching that point. The French figures have been looking better than the current pessimistic discussions of France seem to indicate.

I think it is important for us to get this sort of pressure on the French, since we have been putting up for fiscal year 1954, $870 million in connection with the Indochinese war, of which a large part has been straight budgetary support and balance-of-payments support for France.

Then, again, early convertibility of the principal European countries will, I think, help other countries, particular the Latin-American countries, to solve some of their problems of settlement with us indirectly through their exports to European countries. Certainly Latin-American exchange restrictions have been very galling to the United States, and then retaxation would be encouraged by convertibility of European currencies.

It seems to me that it is carrying coals to Newcastle to repeat what has been said several times here, about the vital importance of keeping the American economy stable. I think that the recommendations of this committee of Congress on the domestic policies we have to follow to maintain a high level of activity here are one of the most important things that are being done in the field of our foreign relations, because I agree thoroughly with all that is said about the effect of an American decline on the economies of other countries.

Now, I come to what we should do ourselves about convertibility. I think that we should not take the line of issuing warning signals pointing out all the difficulties. I am a little bit in disagreement with the Randall Commission report on that. I think our line should be that we continue to press hard for it. It seems to me that all the gradualness and all the caution that is needed in the situation will be provided by the British, who are really the key to the situation. They will never forget the experience of 1947, and they will never take the leap unless they feel that they have made sufficient progress along the lines described in the Douglas report and in the Commonwealth Ministers' reports, and unless they feel they can maintain convertibility once they have returned to it.

In order to give them this confidence, I think we should give public advance notice that when the time is ripe we will make available supplementary reserves—they used to be called stabilization credits; it is the fashion now to call them standby credits—in very substantial amounts. I have already suggested the order of magnitude by pointing out that British reserves now are about $2.5 billion, and by saying that I think their ideas would be in the neighborhood of $5.5 billion, or something like that. These are large figures, and I think that there should not be any holding back. The American people should know that this is not peanuts; this is an important operation, although it is in the nature of such credits that they really will not be drawn on. With strong support and the knowledge that reserves are adequae, the hot-money problem will not be a danger. Flight capital will be moving in rather than flowing out.

I think there are certain very important technical advantages in having a combination of International Monetary Fund credits and Federal Reserve credits; the opinion is based on the way we operated in 1924 and 1925 in connection with the return of sterling to gold at that time.

It seems to me, also, that we must increase the freedom of access of producers in other countries to the American market if we are going to get early convertibility. In this I am apparently in quite strong disagreement with other members of this panel. I believe the recommendations of the Randall Commission are a minimum in this regard, and I, myself, would go considerably further.

I do not think that taking down in a sensible and reasonable manner some of our trade barriers should ever be regarded as a concession to foreign countries. I think that this is something we should do in the interest of the United States. It appears to be unfashionable ever to refer to the benefits which the American consumer would derive. He is the forgotten man in tariff discussions, but I would like to see him brought back into the picture.

One of the reasons for my strong view on this is that the problem is to get our overall balance of payments into order. If we look at the figures now, they look very well, indeed. Our currrent account is approximately in balance. But it is in balance partly because our imports are being added to by the payments that Mr. Murchison referred to—our stockpile purchases, expenditure of our troops abroad, and our offshore procurement purchases, these are in the order of $3 billion, but we do not expect to have to continue for more than several years. I think they are reaching their peak. If they were absent, the reserve picture of other countries would not be as favorable. Of course, we could come to a balance without these, but not with all of our other objectives realized.

So it seems to me that the argument for quick action in the commercial policy field in the direction of the Randall Commission recommendations, is strengthened by the fact that we have this breathing spell during which the ability of other countries to buy our goods is being sustained by nonmilitary dollar receipts that are very substantial but temporary. In the interval we should be able to build up an increasing volume of imports, not only from European countries, of course, but from all countries.

It is very difficult to see how an expanding market in third countries would help European countries very much in settling their accounts with us unless these other countries could provide them with dollars in payment. So it goes all around the bush. Our problem will be largely solved as far as convertibility is concerned if our general balance is in order rather than our balance only with the key countries that have been referred to.

Finally, I agree fully with the statements made before about the great international impact of a decline in business activity here. I think that the sort of thing that happened here in 1949 could now be well sustained by European countries. I do not think their situation is so bad that they could not bear that kind of little tremor in our economy. But anything more than that I think would be quite disastrous.

The thing to be avoided, it seems to me, is doing anything which would start a series of defensive actions by other countries, because their exports to us were reduced and therefore they would have to take action to defend themselves. Such action affects somebody else's trade and other countries feel they must defend themselves. We above all should be afraid, I think, of getting into the kind of situation we had in the depression years between the wars when everybody was saying, "The first thing we have to do is to protect ourselves by cutting down our imports." Our example is so strong in the world that if we say, "The first thing we do in time of depression is to cut down imports by protective measures," everyone else would do the same. We would start a vicious circles. We would not have convertibility, and I think we would sacrifice important American interests.

Chairman WOLCOTT. Thank you, Mr. Brown.

May we clarify our thinking a little bit in 1 or 2 particulars?

As I understand, Mr. Piquet, you indicated that only 5 percent of our production is being exported, our actual production?

Mr. PIQUET. Roughly that.

Chairman WOLCOTT. I believe you said that 95 percent of our production of services and goods was consumed at home.

Mr. PIQUET. Yes.

Chairman WOLCOTT. So I assumed from that that 5 percent was exported.

Mr. PIQUET. That is right.

Chairman WOLCOTT. Now, I think we can agree that the currencies of the 48 or 50 countries which are signatories to the Bretton Woods Pact have pretty well been tied to dollars. That is substantially true. If it is, then may I put this question? Free convertibility between the British pound and the American dollar, would it or would it not be a decided step in the interests of world currency stability?

Mr. BROWN. Did you wish me to reply, Mr. Chairman?

Chairman WOLCOTT. You have been discussing it, Mr. Brown, I think.

Mr. BROWN. Yes.

Of course, I think it would. I think that it is not absolutely essential that the pound sterling should be held at a fixed rate. I think there is a very strong feeling in Britain that there should be some freedom for the rate to fluctuate. But that, I think, does not mean any kind of fluctuation such as we had from 1919 to 1924. It is a sort of controlled fluctuation that really amounts to widening the gold points, so that you would get a movement perhaps of from $2.74 to $2.86, or something of that order, and at the lower and upper points, there would be intervention. So it would be in a sense a stable rate with a considerably larger area.

So I think that that kind of arrangement would contribute to currency stability the world over.

Mr. SAXON. Mr. Chairman, may I say a word on that point?

Chairman WOLCOTT. Yes, sir.

Mr. SAXON. It is quite possible to have convertibility between dollar and sterling or any other currency without that country sponsoring that currency being on a gold standard. All you need is a return to freedom of exchange, a free market in the currency and allow it to find its own level, in which event it will be mutually acceptable anywhere, if it is on a free market basis. And sterling has been on that basis at times in the past without convertibility and allowed to fluctuate and to find its own level. And if the sterling area cannot come back to gold, that is a step that it could take when other nations do return.

It is freedom of exchange, freedom of trade, that we are more interested in. It is not so much a question of free trade as to return to freedom of trade, freedom from all sorts of exchange overvaluations, restrictions, and discriminations, import and export quotas, and things of that type. They are much more important at this time, in my opinion, than any question of free trade.

This country has already on an average reduced its tariffs from the 1930 level by 70 percent. We are one of the low-tariff nations of the world today. If we reduce them another 50 percent, we would be probably the lowest tariff nation of the major nations of the world, almost the equivalent of a free-trade nation.

I would not object to free trade if we could have it on a multilateral basis across the world. But we cannot have it in this sort of world we are living in today, with state trading and totalitarian devices practiced by many of the nations against us.

Chairman WOLCOTT. Now, if there were free convertibility between sterling and the dollar, what would the panel say as to the effect upon the desirability of return to the gold standard? Would it make any difference?

Mr. SAXON. The only sure way, in my opinion, of permanently having what is the equivalent of world currency, is to have all currencies of the world mutually convertible into gold at a fixed ratio so that they are mutually exchangeable and therefore you can trade anywhere with the assurance that your lira or your pesos can be exchanged at fixed rates for dollars or sterling or anything else. It is the equivalent of a world currency.

Chairman WOLCOTT. Would you suggest that at this time it would be in the interests of stability for the United States alone to go back to the gold standard?

Mr. SAXON. We are on the gold standard internationally, and so is Switzerland. We are the only two nations of the world that are on the gold standard externally. In effect, other nations are, or some nations are, by tying to the dollar.

Chairman WOLCOTT. I mean convertibility domestically.

Mr. SAXON. I am sure it would be a very important move in the right direction. It would mean that the United States is pledged to the stability of her currency and probably for some years against any further devaluation, and as a consequence, more and more nations would be encouraged, first of all, to accept the international gold standard and move slowly toward domestic convertibility. And a great deal of gold that is hidden would come out of France and other areas as a consequence of domestic convertibility. This makes it increasingly possible for higher gold reserves to be built up.

Chairman WOLCOTT. Now, the next question is right along that line——

Mr. BROWN. Mr. Chairman, may I make a small dissent?

Chairman WOLCOTT. Yes, sir.

Mr. BROWN. I agree with the first part of Mr. Saxon's remarks entirely with respect to the international aspects, but I really find it very difficult to see how any advantage could come from domestic convertibility into gold in this country or even in other countries. It seems to me the major functions which reserves perform are functions related to being in a position at all times to settle your international indebtedness. I think these are the essential functions of reserves, whether they be gold or dollars, or sterling. Sterling is still a reserve for many countries and we must not underestimate that even now. I do not think that much is added to stability by a right, which I think would not be exercised very much, for a citizen to convert into gold.

Mr. SAXON. May I reply to that, sir?

Chairman WOLCOTT. Yes.

Mr. SAXON. The ideal gold standard is complete convertibility of all currencies both internationally and on the domestic market. There are nations that will not be able to do both immediately. But convertibility on a domestic basis first of all is a very definite brake on inflation internally. It also would mean that a great deal of gold abroad, where they can own gold legally without going to jail—which we cannot do in this country—would come out of the sock, come out of hiding and increase the gold reserves of the world, which we badly need. In addition, there are other merits to convertibility domestically. I certainly do not look forward with any great pleasure to the possibility of continuing indefinitely without a gold clause in contracts. International trade and financial and all long-term domestic commitments, whether they are mortgage or sales contracts or investment contracts, are stabilized and are encouraged greatly by the ability to demand payments in fixed amounts of gold or their equivalent.

We have outlawed that clause since 1934 in this country. We did it retroactively, in fact. And I think I am safe in saying that the major nations in the world today allow gold clauses. We do not. And the gold clause is a protection against arbitrary devaluations by nations, which is nothing but a method in most instances of defrauding their people.

Chairman WOLCOTT. Can your concept of convertibility be reconciled with the purposes and objectives of the International Fund? Or does it contemplate the dissolution of that fund?

Mr. SAXON. In every respect except one, sir. That is, the International Fund is based upon arbitrary determination of currency values by agreement. They are unrealistic. It has resulted consistently in overvaluation of other currencies in terms of dollars. And as a consequence, so long as dollars are undervalued, there will always be an excess demand for them. If you cut the price of an automobile in half, you will never satisfy the demand.

Chairman WOLCOTT. Mr. Talle.

Representative TALLE. Mr. Chairman. I believe it is true that the tariff is the first device people think of when anything is said about obstruction to trade. Dr. Saxon, I am sure we would like to have you mention the other numerous devices that are used to prevent free exchange and free trade.

Mr. SAXON. There are so many of them, sir, that I could take a half hour listing them. But you start with minimum export prices. Nations that control certain basic raw materials can raise the price, below which no sale can be made to this country or any other nation. That has been practiced against us in coffee. It has been practiced against us in burlap, and it has been practiced against us in rubber and silk in past years.

Then there are export tariffs. We do not engage in any export tariffs. Under our constitution we cannot do so, but other nations can do so. They have export subsidies of all kinds, direct cash subsidies, indirect subsidies, such as the waiving of wage supplement payments in case of an export transaction, the waiving of certain taxes in favor of export transactions.

They have exchange subsidies, whereby exporters are given different rates of exchange if they are selling to the United States and if they are operating on the domestic market or operating outside of the United States. They have discriminatory import restrictions whereby not only are preferential tariffs raised against us, but there are discriminatory tariffs against the United States, against Germany, and against Japan. In addition to that, there are flexible import quotas that may be varied from time to time at discretion to shut off all imports.

There are insurance subsidies. There are long-term banking discount arrangements which we do not have. All of those are subsidies aimed at selling into the dollar market regardless of costs of production, in order to get dollar exchange because it is only with dollars that they can settle international accounts.

If all currencies were convertible, it would not make any difference to Italy whether she is selling olive oil in China or Australia or the United States.

Tariffs today are really a very minor aspect of this problem of returning to freedom of trade. The whole world is shackled by restrictions on operations, international trade, and international investment. It is not the question of elimination of tariffs nearly as much as it is elimination of restrictions on commerce. We need to restore freedom of trade rather than free trade.

Representative TALLE. Thank you very much, Dr. Saxon. That is something I have tried to point out for a number of years. Obstructions to trade are numerous and the tariff is only one. The United States is in fact a low-tariff country.

Senator FULBRIGHT. Will the Congressman yield at this point for a question?

Representative TALLE. You have pointed it out very well, Dr. Saxon. Yes; I yield.

Senator FULBRIGHT. If that is true, why do you not eliminate tariffs if they are so unimportant? Why can't we agree to let them go down?

Mr. SAXON. Because, sir, we are operating today in a world——

Senator FULBRIGHT. I mean, on our part here in the United States.

Mr. SAXON. Unilaterally it would be trade suicide or, in any case, most of our international trade and financial problems would still remain with us.

Senator FULBRIGHT. Then it must be more important than you have said.

Mr. SAXON. If we could get multilateral action——

Senator FULBRIGHT. You have said that they have no importance, or very minor importance.

Mr. SAXON. They are of very minor importance, and I discount the effect.

Senator FULBRIGHT. Yet it would be suicide if you changed them. I do not reconcile that.

Mr. SAXON. It would if we came down to a point where we would eliminate or cripple a good many sections, for instance, of our textile and our chemical industries, as well as others. While, as has been pointed out a moment ago, we at the present time only export 4 to 5 percent of our total production, there are many industries and segments of industries that are exporting 40, 50, and 60 percent of their production. I discount these figures that have been given here of only 100,000 or 200,000 people to be put out of work. Nobody can do any more than pull those figures out of a hat. They have no sound statistical or other basis.

Representative SIMPSON. Mr. Chairman——

Representative TALLE. Thank you very much, Dr. Saxon.

I would like to have a comment by Mr. Vernon on that same subject.

Mr. VERNON. Thank you, sir. I think there is one element that has to be introduced in this discussion which perhaps has not been pointed up strongly enough. The impression may have been left with the committee that countries maintain these restrictions because for one reason or another they like them.

Now, it is perfectly true that there are elements in almost any country which would prefer to retain all these import restrictions, state trading, and various other devices to which Mr. Saxon referred. But it is equally true that, by and large, most countries would like to get rid of those restrictions as rapidly as they possibly could do so. That is evidenced not only by one's talking with officials in the country but by actions they have taken.

Let me run down some of the actions that have been taken. The European countries immediately after the war were, as has been pointed out, doing their trading virtually entirely on a bilateral basis. Now, they did not like it. And they felt that one thing they could do would be immediately to free up trade as between themselves at least. They did that in the OEEC. But they went much beyond that.

Canada accumulated reserves and eliminated restrictions against the United States not as an act of friendship toward us but simply because Canada realized that the restrictions were no good for Canada.

Similarly with Belgium. Belgium maintained restrictions against the United States and then removed them when her reserves grew.

The UK is little by little eliminating restrictions against the United States at a rate which all of us, including the UK, would like to see much more rapid. She eliminated restrictions with respect to cotton, tin, cocoa, coffee, wheat, copper, lead, and zinc, and hopes to continue to extend the list as her reserves reach a point which she considers safe.

Holland has eliminated many restrictions in the past 6 months, and there are indications that Germany will shortly do so.

Now, the point I want to make is that we do not have a monopoly on the desire for convertibility of currency. These other countries want it as well. The only difference is that whereas the United Kingdom considers that $2.6 billion worth of reserves is not enough to take the risks involved in convertibility, others may disagree with that figure.

I want to make one last point, and that is, notwithstanding this battery of restrictions that have been quite properly described by Mr. Saxon, American exports have gone up 250 percent in volume since before the war, and about 400 percent to 500 percent in value. Indeed, this is the reason why restrictions were imposed. The restrictions were not imposed to cut down on the absolute level of United States exports into these countries. The restrictions were imposed because citizens in these countries so badly wanted American goods and were buying in such large quantities that these countries felt that the needs that had first to be satisfied were the most essential needs of their countries.

Otherwise, they would have run out of dollars. This was how the restrictions arose in the first instance and they will disappear when the demand of these countries for American goods starts to get in balance with the dollars that these countries have to pay for these goods.

Representative TALLE. Mr. Murchison, may I ask you a question? On page 6 of your statement I notice that all of the countries which you mentioned are European.

Mr. MURCHISON. That is right.

Representative TALLE. Would you choose to make any comment about other countries in the world?

Mr. MURCHISON. There are very few other countries in the world that are now prepared to go on the basis of free exchange markets.

Representative TALLE. Colombia did announce it in 1951. They said they were on an exchange basis; a free-exchange basis.

Mr. MURCHISON. Yes.

Representative TALLE. But there were actually certain conditions attached.

Mr. MURCHISON. I think that in the Latin American countries, both Colombia and Venezuela could look forward within the near future to a return to interchangeability.

Representative TALLE. On the other hand, Brazil was doing precisely what Dr. Saxon pointed out——

Mr. MURCHISON. That is right.

Representative TALLE. They had a different exchange rate for almost any situation you might mention.

Mr. MURCHISON. That is right. And in the case of Brazil, we are buying from that country——

Well, twice as much; twice as much in dollars. And I think probably in view of the recent increase in coffee prices, the ratio would run higher than that. And yet Brazil has very, very strong restrictions, very rigid restrictions, against imports from the United States, because Brazil is using her accumulation of dollars to take care of her exchange requirements the world over, as I pointed out originally. So long as the dollar is the only internationally accepted currency, that incentive will continue throughout the world, and the situation will become worse, in my opinion, rather than better. In the European countries, which Mr. Vernon very properly referred to as having alleviated some of their restrictions, they have reached a condition of trade equilibrium, not only by their conservative policies with respect to imports, but because of their internal economic policies.

I think it is perfectly wonderful what has been done in Germany, in particular, and also in Holland in that respect.

Now, if I may refer to one thing that I think is important and that has not been brought out, we speak so lightly of the extent of the need in other countries to increase their reserves. Well, how can they be increased? There is only one way that the reserves of other countries can be increased, and that is at the expense of the United States. If we say that England must have $6 billion total reserves before taking a step, what does that mean? That means an increase over her present holdings of $3.5 billion. And what does that mean? That means $3.5 billion further accumulation in the banks in New York or, if England chooses, a $3.5 billion withdrawal from the United States gold fund. It has to be one or the other. It is the only way it can be accomplished.

If the increase in her reserves can be accomplished only by drawing on the United States, why shouldn't we right now give her the necessary $3.5 billion and get it over with? Because if she has to do it by deducting from American export trade over the next 3 or 4 or 5 years, that means in the meantime our exports are being demolished in order to permit England to build up increased holdings of exchange at American expense.

Mr. SAXON. May I comment on that, sir? I think it would be helpful to point out that a great deal of our export expansion which took place during and since the war was due to the fact that European industries were not in a position to service their own and their traditional export markets. We cannot expect to hold all that export trade that we captured from them now that they have regained their full prewar production and gone beyond it.

Many of them have much more efficient plants than they had prewar, and they are operating at other cost advantages higher now than prewar.

Consequently, in any case we are going to lose a great deal of this export trade we have built up.

I just want to point that out. We cannot hope to hold it. Already in 1953 we have suffered a substantial loss of exports and have had substantial, in fact, sharp increases in imports, especially in the second half of 1953. This represents a dramatic change from the situation existing 2 or 3 years earlier.

The next thing that I would like to mention is that Great Britain, for instance, has another way in which she can expand her exports and increase her reserves, and that is by reducing her export prices. Now, you say, how can they do that? England is working at a 40-hour week with 25 percent extra pay for overtime. I believe in maintaining as short a workweek as a nation can afford. But Germany is working 48 hours; Japan is working 49 hours. The continent of Europe as a whole is operating at 45 hours. And I see no reason why we should support social security and short hours of work in Great Britain if she cannot afford to do it herself. Certainly, the American taxpayer should not be asked to do it. By going to a 48-hour week, Great Britain could, in effect, increase her labor force by 20 percent and reduce her production costs substantially.

Representative TALLE. You are quite right. I want to thank you for enumerating these various devices that are used in addition to the tariff.

Mr. COPE. Mr. Chairman?

Representative TALLE. Mr. Cope.

Mr. COPE. The discussion between Senator Fulbright and Dr. Saxon emphasizes the point that I have tried to make. Dr. Saxon disagrees, presumably, with the 100,000 figure suggested in my presentation. Let me suggest that no one is suggesting that there can be a final, positive figure made on that, because it is based on certain assumptions relative to the volume of imports. Consequently the effort has been made to convert the equivalent man-hours required to equal the imports assuming certain reductions in tariff.

Let me suggest that there ought to be an attempt made to get rid of this question once and for all insofar as it is possible for reasonable people to do it. It is for that reason that in the Randall report, it was suggested that Mr. McDonald recommended Congress concern itself with this matter, and that by resolution or otherwise it make provisions for the studies to be made.

For instance, the suggestion was made, if I may refer to page 58 of the Randall Commission report, that industry-by-industry estimates of potential displacement resulting from tariff reductions be made by a special interdepartmental committee established for this purpose; the probable effect of such displacement on the individual industries and companies involved be analyzed by the Department of Commerce; the probable effect of such displacement of workers involved by industry and by labor market area, be analyzed by the Department of Labor; and adequate funds for these studies to be made available by the Congress.

Now, it seems to me that it is quite possible for such studies to be made. As a matter of fact, a request was made by the Randall Commission that the Department of Labor make these studies.

The main obstacles to doing a thorough job were inadequate funds and insufficient time. And I am quite sure if the funds were provided and the requests were made by Congress to get at the facts, it could be done.

I want to point out further that the person who made these suggestions was the leader of a large labor union, representing better than 1 million workers.

I am merely suggesting, gentlemen, that the time has come when speculation on the impact of increased imports be stopped. It should not continue to be possible for those who are for freer trade to say it is not significant and those who are opposed to freer trade to say, "You will wreck our economy." There is a way of getting at the facts, and I think that the time has come when the facts should be gotten. We made an effort to do this, and I think our figures are as good as anybody's figures, and I challenge anyone to show where they are as bad as those presented by the other side.

It is for that reason that the proposals mentioned above were made. They are buried in the Randall Commission report as a dissenting opinion.

Mr. SAXON. Mr. Chairman, I heartily agree with the proposal that a study be made to get the facts to the extent that you can get the facts on such a theoretical problem. At the same time, I do not want to be understood as sponsoring the idea that those who are injured should be subsidized. I do not think that we ought to open up that door, which would mean the development, possibly, of the continuing vested interests, such as we have today in our unfortunate agricultural situation.

That is a possibility that could develop in this field. But I do think that every effort ought to be made to get at the facts. And the Randall Commission did not, or did not have time to, explore that area.

Chairman WOLCOTT. Thank you, Mr. Saxon.

Mr. Piquet.

Mr. PIQUET. I would like to stress the fact that convertibility of currencies and trade are but two parts of the same problem. I think there is a disposition to lay too much stress on the financial umbrella and not enough on the parts of the economy that are much more fundamental. It is something like the chicken and the egg: "Which came first?" Well, they both came together. Talking about convertibility without freer trade or talking about freer trade without convertibility is akin to talking about the chicken without the egg or the egg without the chicken.

When the United Kingdom led the world in the 19th century, in the so-called Golden Age, it did so because the Bank of England and the British Government made the system work. It was not automatic. The text-book type of free trade—multilateral trade—just will not work without leadership when you have one country much bigger than most other countries, combined.

Now, the question is, in the world as it is today: Can leadership come from anywhere other than the United States? Britain, I think, cannot do it. It is not a question of the United States behaving like a creditor nation should behave. The question is, should the United States behave like a very large country should behave? As I pointed out in my paper, a fixed amount of trade means very little to us in terms of our aggregate gross national product, but it means a tremendous amount to the smaller countries.

Almost every one of us has mentioned this particular fact. So if the United States is interested in restoring convertibility, and in increasing trade, I doubt if it can expect it to happen unless it assumes the leadership.

Now, one other point. As one who has done some studying of the facts, I am obligated to show the fallacy underlying the thinking that maintains that the United States tariff is no longer restrictive. The United States tariff today is quite restrictive of imports. The figures that have been quoted with regard to the mathematical height of duties, that is, the arithmetic ratio of duties collected to the value of imports, are practically meaningless, for the simple reason that a low duty in terms of ad valorem equivalent, very often can be, and in fact very often is, highly restrictive of imports.

The only way to measure "restrictiveness" is by assembling the best judgments available as to how large imports would be if there were no tariff, on a commodity by commodity basis.

In a military campaign in which you are trying to keep the enemy from closing in on you, it is not a question of the height of your Maginot line that counts. The thing that counts is how restrictive are all of the obstacles that you have thought about.

Now, it was this committee in 1950 that asked us in the Library of Congress to make a study of this phenomenon, and we did it, and we did it with the cooperation of the technical experts in the departments downtown, including the Tariff Commission. We assembled the best guesses, and we found that if it were not for tariffs and quotas, imports would increase quite considerably, even if they were to be suspended on a temporary basis.

In my paper this morning, I have tried to translate these into permanent suspensions and I find that they would lead to increases in imports of anywhere between 20 and 30 percent.

So I must maintain that, on a factual basis, or as close to the facts as we can estimate, groupwise, by the best authorities the United States Government has been able to employ, the American tariff is still considerably restrictive.

Now, I do not like to use the words "high" or "low" or "very" or "little," but the percentage, it seems, speaks for itself.

Senator FULBRIGHT. Mr. Piquet, aren't the regulations also restrictive?

Mr. PIQUET. Yes, on top of the duties.

Senator FULBRIGHT. I mean, the existence of the peril point, which is a device which says "If you succeed, we will cut you off," is in itself very restrictive; is it not?

Mr. PIQUET. I am using the term "tariff," Senator, to include all restrictions of the United States: Customs and quotas, too, in addition to tariffs.

Senator FULBRIGHT. Isn't the existence of these regulations and devices more restrictive in many cases than the actual amount of the tariff, in dollars and cents?

Mr. PIQUET. In some cases, that is undoubtedly true.

Representative SIMPSON. Senator, will you yield?

Senator FULBRIGHT. I should like very much to ask a few additional questions.

Representative SIMPSON. I assumed that you were finished. I apologize, and ask you to go ahead, sir.

Senator FULBRIGHT. For one thing, Mr. Chairman, I would like very much if Mr. Piquet and Mr. Cope could furnish for the record the studies they have made with regard to these statements on the impact of tariff reductions on employment. They obviously have made some, and I assume that they have material which I think is of primary importance, in addition to the statements.

If they have it, I would certainly like to have it made available to the staff of the committee.

Mr. COPE. May I point out, Mr. Chairman, that we are in a little difficult period this week and next week because a good deal of the work that was done on it was incorporated in the Randall Commission report as staff papers, and they are still under wraps presumably, and are at the printer's now, and probably will be available in another week or so.

Senator FULBRIGHT. When and if they are available——

Mr. COPE. They will be available.

I would like to refer, though, to a study that was made by the Bureau of Labor Statistics entitled "United States Workers Producing Goods Equivalent to Import Increases in the Case of Temporary Tariff Suspension."

It is a report that they do not consider conclusive, but was submitted to the Randall Commission as a beginning. I have a copy I got from them. So I presume it is available for public distribution.

Senator FULBRIGHT. I wondered——

Mr. COPE. To my knowledge this is the only study published. The Randall Commission staff papers will be available, I understand, in a week or two.

Senator FULBRIGHT. Do you have any material of that kind? Have you made any studies on the impact on the employment situation?

Mr. PIQUET. No. That was done by the Bureau of Labor Statistics, and it was based upon my own estimates of increased imports in the event of temporary tariff suspension.

Senator FULBRIGHT. One other question: About this question of convertibility, Mr. Piquet, if I understand you correctly, the actual convertibility is not something you can do by yourself. Isn't it rather a symptom of an imbalance in trade? If you can get a fairly stable situation, it may not always be exactly month by month, but that is what leads to convertibility; is it not? It seems to me it is putting the cart before the horse to say that we must have convertibility; is that not true?

Mr. PIQUET. That is right. Every time goods, services, capital, or anything else of value moves between ourselves and Europe, it has the same effect upon the balance of payments.

It makes no difference whether it is trade or whether it is some other cause for the monetary movement.

Senator FULBRIGHT. Then the basic trouble is, I think, more reasonably put in this way, that it is the imbalance in our trade, that is, greater exports than imports, which makes it difficult to get convertibility.

Mr. PIQUET. More credits than debits.

Senator FULBRIGHT. We sell more than we buy.

Mr. PIQUET. That is right.

Senator FULBRIGHT. Is that recent, or have we been doing that for a number of years?

Mr. PIQUET. No. We gave away——

Senator FULBRIGHT. All right. It is true, you give it away. The taxpayers paid for it.

Mr. PIQUET. No. I meant to say with regard to foreign trade.

Senator FULBRIGHT. That is right. We pay for it, instead of getting the goods for it.

Mr. PIQUET. That is right. It has the same effect, though, on the balance of payments.

Senator FULBRIGHT. And let me pursue it a little further. I am trying to move rapidly. This is a condition that is not a recent development. Is it not true that we had a favorable balance, a so-called favorable balance? We sold more than we bought practically all the time since the First World War, is that not true?

Mr. PIQUET. That is true, sir. We have been building up, of course, this backwash of credit position, and the invisibles have played a part in helping along the balance.

Senator FULBRIGHT. Do you have a rough estimate of how much more we have sold to the world since the First World War than we have bought?

Mr. PIQUET. That would be a question of obtaining the balances. I don't have that available, but it is readily available. It is easily obtainable for the record.

Senator FULBRIGHT. Mr. Brown held up his hand.

Mr. BROWN. I think I could find the figure if I can get back to my office. But I think it is in the neighborhood of $72 billion.

Mr. PIQUET. That sounds about right.

Senator FULBRIGHT. It is a very substantial sum.

Mr. BROWN. Well, if you think $72 billion is large——

Senator FULBRIGHT. That is a very large sum. In other words, we have insisted on selling to the rest of the world more than we would buy in the neighborhood of $72 billion; isn't that right?

Mr. BROWN. I really hope that figure will not go in the record. I would have to look it up.

From July 1914 to the end of 1952 the United States exported goods and services to the value of $342 billion, and imported goods and services to the value of $222 billion. It thus exported $120 billion more on current account than it imported, or over $3 billion per year over a period of 38½ years. If the war years, July 1914 through 1918, when the surplus was financed in large part by war loans, and 1941–45 when it was largely covered by lend-lease and other forms of aid, are excluded, the United States exported $241 billion and imported $171 billion, leaving an export surplus on current account of $70 billion. This is the figure I had in mind when answering Senator Fulbright's question. If not only the war years but the first 2 years immediately following the close of each of the 2 wars are excluded, our current account exports were $185 billion and imports $143 billion. Thus in the 25 years not dominated by war or its immediate aftermath, the current account surplus was $42 billion. Of this only $17 billion was built up during the 20 years 1921–40 (an annual average of $850 million), and $25 billion was accumulated during the 5 years 1948–52 (an annual average of $5 billion). During these 5 years large American foreign aid was being extended, of which $5.3 billion was military aid.

Senator FULBRIGHT. I have seen the figure, but I have forgotten.

Mr. PIQUET. I believe it is $90 billion, if you go back to the beginning of the war.

Mr. SAXON. Senator, may I comment on this, sir?

Senator FULBRIGHT. Certainly.

Mr. SAXON. I think the figure is utterly meaningless, because it does not take into consideration that while we were selling to the world more than we were buying, we were lending all during the twenties and thirties at a sufficient rate—though we were a creditor Nation by and large, we were lending enought to counterbalance at least what we were overselling. You cannot just look at your merchandise balance. You have to take the overall position. That is a mistake that so many people make in this field.

Senator FULBRIGHT. I am afraid I do not see the fallacy, frankly. If we have sold, on balance, more than we have bought——

Mr. SAXON. But there are other transactions that Mr. Piquet just mentioned that have to be taken into account, one of which is that a creditor nation can go on for a decade or more selling to the rest of the world more than they buy from the world if we will make foreign investments sufficiently large to counterbalance that, and in the twenties we did that, and even in the thirties we came near approaching it, despite the low volume of trade.

It was not until we got——

Senator FULBRIGHT. Are you saying that our foreign investments approached in volume the difference here of $72 billion?

Mr. SAXON. The annual differences, on the whole, except in the thirties. In the twenties they exceeded the balance on merchandise account. In the thirties they fell off sharply throughout the world, and then since then, due to the confiscation of foreign investments, our exports of capital have necessarily slowed down.

But as the largest creditor nation in the world, we could go on indefinitely selling more than we buy from the rest of the world if we are willing and able, as we are able, because we have the money to do it, to invest in the rest of the world sufficiently year by year to counterbalance the export deficit.

Senator FULBRIGHT. How are they going to service these debts? Just by our continually lending them the capital to pay the interest on it?

Mr. SAXON. No. The time will come when eventually we will have to accept an import balance or continue the investment.

Senator FULBRIGHT. The time has already come. We got all their gold, and it got to the point where they could not possibly pay their bills.

Mr. SAXON. Senator, we are at a very critical stage of world affairs where another decade of grace may permit us perhaps to stabilize conditions and even come to some sort of terms with Russia.

That 10 years of grace, say, that we might get by that device might be invaluable in international relations.

Senator FULBRIGHT. Mr. Chairman, this is a very complicated subject. I do not wish to argue it more. I would appreciate it if you would supply for the record, Mr. Saxon, the detailed figures on just what this balance has been, and especially with regard to the amount of our lending abroad, which balance——

Mr. SAXON. It is available in the record, sir.

Senator FULBRIGHT. I would like that. I think we ought to have it.

Mr. SAXON. I will see that you get it.

Chairman WOLCOTT. Senator Fulbright, Mr. Brown has a comment.

Senator FULBRIGHT. Yes.

Mr. BROWN. I would like to make some comment, if I may, Mr. Chariman, arising out of this discussion. I would like first to indicate some doubts in my mind as to the contribution which our foreign investment is likely to make in the next 10 years to pulling us over this rather difficult period.

I think if we look at the capital items in our balance of payments—that is, both our foreign investment and the investment of foreigners in this country—we are still a great magnet for investment by other countries and the interest payments and so on, we will find that we are just about even on capital account.

Mr. VERNON. Yes.

Mr. BROWN. So we have to have a very large, a much larger expansion of foreign investment than I think seems at all likely.

Mr. SAXON. Will you yield a moment there, sir? You are confusing short-term credit with longer term investments.

The investment here from abroad is largely short term and is represented by flight of private capital here due to fear of conditions abroad. And if you return to convertibility, most of that capital will go back. The capital that we offset against trade accounts is long-term investment. You cannot fairly confuse the two. Our foreign investments are doing a constructive, productive job abroad, where it is being permitted to do so without confiscation.

Mr. BROWN. Yes. I do not think, however, that it is on a scale which lends a great deal of encouragement. And you certainly do build up a service charge and a return of profits quite quickly.

If I remember correctly, the British position turned over in 1874, when their interest receipts were larger than their new capital investment.

The time comes quickly when, as Senator Fulbright said, you have to keep on greatly increasing your investment in order to get a net contribution to the balance of payments. The real contribution to my mind of the foreign investment to solving our problems is its contribution to production, which will enable these countries to increase not only their domestic welfare, but also their foreign exports.

Senator FULBRIGHT. Until a balance comes.[1]

Mr. BROWN. So it will balance. In the end it is a trade problem.

Senator FULBRIGHT. That is right.

Mr. BROWN. May I return to something that Mr. Murchison said, because it troubled me very much. He seemed to be holding up the view that it was some sort of disaster for the United States if the rest of the world wished to use the dollar as a currency in which they conducted their international payments. I would agree with Mr. Saxon that to some extent these balances are flight of capital balances and would be withdrawn, but the picture given by Mr. Murchison was that they would go on accumulating indefinitely the expense of our exports, and that that was some kind of disadvantage to us.

It is very difficult for me to reconcile this with the history of the United Kingdom, which for several generations [2] conducted the trade of the world in sterling; reserves and working balances were kept in sterling. There was a good mechanism for changing the marginal flow in and out of those balances to meet particular situations, and in that connection, I think we have to relearn the whole business of international central banking to bring that flexibility to bear. Certainly the United Kingdom never worried about the accumulation in the good old days of these balances. That was part of their strength——

Mr. SAXON. Will you yield a moment on that, sir?

Mr. MURCHISON. May I reply to that, Mr. Chairman?

Senator FULBRIGHT. Mr. Chairman, I would like to ask questions, too. This is a highly technical matter. But I want to ask a question about agriculture that is not quite in this high field here. And I would very much like, because I have to go to the floor, as all of us do—I want to ask Mr. Piquet a question and Mr. Brown or anyone else, on this question of agriculture, because as you know, I come from an agricultural State.

The other day, the Secretary of Agriculture seemed to imply that this question of trade is not very important; that we can solve this difficulty or help it in agriculture by salesmanship. What I want to ask you is, on this question of freedom of trade, the lowering of our tariffs, or, to put it another way, freeing of our trade, because I think the regulations are probably more significant than the amount of the tariff—does that have any bearing upon our exports of agriculture? And if we could free the trade and increase our imports, would that

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[1] Mr. Saxon adds that the record clearly shows that we could continue for a decade or more and need only assurance against confiscation to do it.

[2] Mr. Saxon footnotes this to say that between 1875 and 1930 most nations were on the gold standard.

help agriculture; would it help this problem of surpluses in agriculture or would it not?

Would you comment on that?

Mr. PIQUET. It would certainly help to a great degree. But I think, Senator, that our agricultural surpluses are largely attributable to the fact that we have had a number of bumper crop years in a row on top of our price-support programs.

We have been trying since last fall under section 550 of the Mutual Security Act to dispose of some of these surpluses through commercial channels in exchange for soft currencies. This program has not been conspicuously successful to date in terms of the quantity of goods that have been sold.

I think something like $61 million have been sold that way. But our total surpluses, I understand, are now between $5 billion and $6 billion. So even if we were to go on a completely free trade basis, I still think there would be a problem in this field because of the nature of agriculture compared with industry.

Senator FULBRIGHT. I hope I do not leave the impression that any of these things are panaceas. What I mean is that in agriculture, in agricultural products, their foreign markets suffer from the failure of foreign people to have American dollars, to have exchange.

Mr. PIQUET. Certainly. To the extent that the imports would increase, there would, of course, be that much more purchasing power for our goods, including agriculture.

Senator FULBRIGHT. That is what I meant. And agricultural exports have decreased very substantially during the last few years, have they not?

Mr. PIQUET. They have, although they increased somewhat last November (latest data available).

Senator FULBRIGHT. They still are decreasing. And compared to, say, 20 or 30 years ago, the percentage of our crops, regardless of their size—the percentage that is being exported is much lower now than it was then; is that not correct?

Mr. PIQUET. I believe that is correct.

Mr. SAXON. Senator, may I answer that?

Up until 1932, for 50 years we had exported between 50 and 60 percent of our cotton. Since then, except during the war and postwar years, when we have been giving it away, we dropped down in the thirties to only 28 percent, and we were subsidizing the exports then.

I would just like briefly to say here that convertibility is one of the major factors, and there is another one, in this situation. In 1947–48, for instance, Great Britain was buying wheat from the Argentine and paying the equivalent of $5 a bushel, when they could have bought it here for $3 or $3.25, simply because of unconvertibility of her currency. But the major factor——

Senator FULBRIGHT. Because they could not get dollars?

Mr. SAXON. No—because of unconvertibility of her currency.

Senator FULBRIGHT. I cannot follow you, Mr. Saxon. If convertibility is some problem apart from the balance of payments, it makes no sense at all. I mean, the reason it is not convertible is that we will not buy anything and make dollars available.

Mr. SAXON. If the sterling had been allowed to fall to its normal level on a free market, it would have been convertible, sir. It would have been convertible if it had been a free market.

Currency of a foreign nation is nothing but a commodity to the United States. If we believe in free markets for commodities, we ought to believe in free markets in exchange. And if you arbitrarily peg them and say they ought to be so much, people will not buy them. Black markets are sure to develop.

Senator FULBRIGHT. Of course, we believe in free markets on commodities. As Mr. Piquet said, they are closely tied together. But you cannot ever consider convertibility, as I see it, apart from your balance of payments. If they are in balance, it is another way of saying that your currency is very likely to be convertible, is it not?

Mr. BROWN. Senator, I would like to comment on that. I think that Mr. Saxon is right, that you can always get your balance of payments in order if you let your exchange go to pot. But on the way down, what you do is to restrict your imports and you help to expand your exports, and that is what the declining rate is supposed to do.

I think it is rather odd to think that other countries would have bought as much from us if they had allowed their rates to go free, because the falling rates would have made all our products more expensive and would have a bad effect on their imports from us and also on a lot of our objectives, such as the strength of the United Kingdom as an ally, which we were trying to build up at that time. But on the purely textbook statement that you can always avoid balance-of-payment difficulty by an exchange depreciation, I would agree. The question is what are the consequences under a given set of circumstances of doing that?

Mr. SAXON. Mr. Brown, may I say this, that I am not talking in theory. I operated for 12 years as an import-export merchant before I went to teaching it, and I have taught it for 22 years. And I do not think I am talking sheer theory. The facts of the matter are that you can sell anything if you price it right. And that is true of a currency, or horses, or rubber, or silk, or cotton. But the major factor in our farm problem is that we have priced our cotton far above world price levels, and naturally the world is not going to pay 30 cents for cotton produced in the United States when they can buy it for 20 cents abroad.

Senator FULBRIGHT. I would agree with that. But how about this? Do you think that if we did not have the tariffs and protection to our industry, they would sell more here and buy more of our cotton? In other words, we are protecting a special group. We have for 100 years.

Mr. SAXON. The only chance, sir, you have——

Senator FULBRIGHT. You protect your cotton textiles, that Mr. Murchison is interested in, and steel——

Mr. SAXON. The only chance you have of expanding your export of cotton is to allow it to find a free market competitive with other cottons, or subsidize its exports.

Senator FULBRIGHT. I do not think it is anything absolute, and I do not think we disagree. As I said to Mr. Piquet, I do not think it would solve the surplus problem if you had freer trade, but I think it would make some difference if they would sell us a few more things. We had this section 104 fight on a very small amount of cheese, when all the evidence was clear that that made a difference, that they could buy a little more flour if they sold us a little cheese. That is exactly what people from Holland and from Switzerland said. It was not a great amount but it was a little amount. If they could sell us a little cheese, it had been their custom to buy a certain amount of flour. When they could not sell it, they cut down their purchases of flour.

It seems to me that there is nothing absolute about those ideas. But if they can sell us something and get in balance, a little more currency, they are likely to buy a little more. Now, that is about it.

Now, you are protecting our industries. It is a traditional policy. That has been the great difference between the Republican and the Democratic Parties for 100 years, I guess. There is nothing secret about it now.

Mr. SAXON. For 20 years, sir, we have had nothing but constant reduction in tariffs, and we have gotten little or no reciprocal benefits from abroad.

Senator FULBRIGHT. That is debatable. I do not agree with that. At the same time, your peril point and regulations are such that it is technically impossible, as a practical matter, to ship into this country. We have many cases of that. Mr. Piquet in one of his books, I think, or articles, illustrated that at very great length.

Mr. SAXON. There are very few instances where the peril point has been used.

Mr. MURCHISON. It has been used only three times.

Senator FULBRIGHT. The existence of the peril point is the important thing, because if it is used once or twice, like the case of blue cheese, as soon as they begin to be successful and ship us a few things, then we cut their heads off. Of course, that need happen only once or twice. Importers would be foolish to run into that kind of situation. They should not try to make an investment to sell in this country when, as soon as they are successful, they will be excluded.

Mr. SAXON. Senator, I would be all for free trade if you would get reciprocity abroad from it. But you are not getting it.

Senator FULBRIGHT. I do not think that anybody here is proposing that we suddenly take off all restrictions and go entirely on free trade. But the Randall Commission report is a gradual approach to that objective, I think. And it is particularly important to agriculture.

Mr. VERNON. Senator, may I say one word about this question of reciprocity? It is an interesting one to me, coming from the State Department as I do. I think you have to get back to one basic fact, that American exports are at the highest level in history, even after you adjust the prices, and American imports are probably pretty close to the highest level in history. The fact of the matter is that world trade has increased. It is hard to know whether that is in spite of an increase in restrictions or because of it. But I do not think the picture is all that black on either side. I do not think, either, that other countries have erected barriers so difficult that foreign commerce is at a standstill, nor have we erected barriers so difficult that imports have come to a trickle. I think the question basically is, what do you have to do additionally today to achieve this convertibility that we all want? And in terms of that marginal movement, that marginal change in policy, an awful lot of arguments can be adduced and have been adduced this morning for the contention that there ought to be some more American imports quite apart from where the absolute level stands.

Senator FULBRIGHT. I think that is quite true.

One other thing, Mr. Cope. You have said a good deal about adjustment of labor, or displacement of labor. What would you do about the capital that is lost in an industry?

Mr. COPE. I do not think, Senator, that you could do much to compensate people for what they have lost in the past. I think the problem has fundamentally to do with the future situation.

Senator FULBRIGHT. All right. From here on, what would you propose?

Mr. COPE. From here on? If you will read the proposal carefully—I could not but touch on it—there are any number of things that have been done communitywise and industrywise, to attempt to diversify, to bring in new industries, and that kind of thing. In terms of community development, you will find that there are a good number of States where there are State community development organizations. There are city community development organizations——

Senator FULBRIGHT. No, that is not quite the point. You recommend that we make special provisions for labor that is, we will say, displaced. What would you do for the stockholder in the company? Would you be willing also to agree to compensate the man who owns the stock in the company?

Mr. COPE. I think we ought to understand what we are talking about. We are not talking about compensating labor for its loss of seniority or its loss of job per se. We are suggesting that they be tied over——

Senator FULBRIGHT. Those special provisions——

Mr. COPE. As a temporary measure, though, until such time as other jobs are provided or they get new jobs. That is not the same type of thing as compensating a stockholder for his loss in equity in a plant that has to shut down.

Senator FULBRIGHT. I do not see much difference. If you had a company that was built up in reliance on an existing tariff—we will say he had every right to, I suppose—it is a legitimate business, and now we suddenly change it. If you are going to make special provisions to give extra payments, unemployment insurance, and all that, what is wrong, then, with some method of compensation or help to the stockholder?

Mr. COPE. We are suggesting, Senator, that if loans are necessary to use the capital equipment, if they have to diversify or bring in new products which would require new machinery, or if they require, as some smaller companies would, marketing experts to decide what new product they ought to bring in that would not be in direct competition with imports, then the Government should provide the money or the resources——

Senator FULBRIGHT. To the business?

Mr. COPE. Technical assistance to the business——

Senator FULBRIGHT. I see.

Mr. COPE. In order that they might adjust. There are some people so hard boiled about this that they say that industries who find import competition too tough should go out of business. Or if they must convert to new products, they should stand the whole cost themselves. No doubt in a great number of cases, industry can and will make the changes without any outside assistance. This would lessen the burden of the Federal Government in any adjustment program. However, if companies lacking the resources to make the necessary changes do need help, then the Government through small business loans or other technical assistance should assist them to get on their feet.

Mr. MURCHISON. Senator, may I make a comment?

Mr. COPE. May I finish? The argument has been made that such assistance might become a chronic subsidy situation. We are suggesting that the aid be temporary until the concerns involved get re-established. There are all kinds of examples to show how this adjustment can be made.

Iron Mountain, Mich., has been given as a typical example. A mine petered out, an iron mine. Ford went in and built wooden bodies for station wagons. Later metal replaced wood for these bodies, so this business folded. Subsequently, through a community development program new industries were brought in.

Another suggestion has been made that export companies, like those in the huge steel and automobile industries that are spending billions a year on new investments, might locate new plants in those areas where the import impact would be greatest. This would absorb the displaced labor force, and thus would lessen the dislocations caused by increased imports.

Mr. MURCHISON. Senator, could I ask Mr. Cope what we would do about a group of cotton mills such as we have in Greenville, S. C., or Spartansburg, all through the Southeast, cotton mills that are processing two-thirds of the American cotton crop and using machinery which we all know, spindles and looms? If textile operations are put out of business in the United States, how could that equipment be adjusted to any other type of enterprise?

Moreover, in that particular region, what other industries could be brought in that would have a relationship to that region's resources, manpower, skills, and be used as a subsidy? How in the world could you do that?

Mr. COPE. Let me suggest, Mr. Murchison, that after all, there was a tremendous problem in New England when they went south.

Mr. MURCHISON. And that problem is still there, Mr. Cope.

Mr. COPE. They used to be in New England, and they moved out. And what New England is doing, it seems to me, is a very outstanding job of trying to bring in new industries and diversify.

Mr. MURCHISON. They are still struggling. After 20 years they are still struggling. And the recent report of the New England Governors indicated that the replacement had not been completed, and had not been satisfactory. The new industries that have come in were employing fewer people and paying lower wages than those that they displaced.

Mr. COPE. Mr. Chairman, I would like to suggest as an official of the labor movement that I have no objection, and I think it should be done, in trying to find some way to help them, too, even though they are not directly affected by imports. I think that it is the responsibility of somebody in the United States, or some agency, to be concerned about people that are thrown out of work for any reason.

I have not proposed to make any arguments on how much tariffs should be reduced or how much imports should be increased. I am simply suggesting that if individuals or other big companies or communities or workers are adversely affected, some provision should be made to help them help themselves.

Mr. MURCHISON. In the area that I speak of, Mr. Cope, you have 200,000 to 400,000 employees. Two to three times as many as you said would be displaced over the country would be looking for jobs.

Senator FULBRIGHT. Mr. Murchison, why is it that that industry is so inefficient that you assume it would be put out of business, apparently overnight, if it is not protected? I thought we were very ingenious and efficient operators.

Mr. MURCHISON. Senator, it is not a case of inefficiency.

Senator FULBRIGHT. What is it?

Mr. MURCHISON. It is a case of wage differentials.

Mr. SAXON. Japanese wage rates are one-tenth of our rates.

Mr. MURCHISON. It is almost incredible. The average wage of the textile workers in the cotton textile industry in the United States is $1.30 an hour.

Senator FULBRIGHT. Is it mechanized or is it all handiwork?

Mr. MURCHISON. Of course, it is mechanized.

Senator FULBRIGHT. The theory has been that we are productive and efficient because of the mechanization and horsepower that we devote to it, and all of that sort of thing. Isn't that true?

Mr. MURCHISON. We have the most efficient industry in the world. There is no question about it; I mean, among the textile industries. But the world over, they have access to the same machines. Since World War II, Japanese and German textile industries have been completely rebuilt. They have a higher percentage of new machinery than we now have in the United States. But the wage gap has not been narrowed.

Mr. SAXON. It has widened since the war over the prewar differential.

Mr. MURCHISON. It has been widened. And in Germany, Great Britain, and all the countries of Western Europe, you have an average hourly wage rate of around 40 cents an hour, which is less than one-third of what it is in the United States. In India, it is less than one-tenth. It is about one-twelfth.

Senator FULBRIGHT. Are those workers just as productive as ours, per hour?

Mr. MURCHISON. The difference is productivity is relatively slight, not anything so great as the difference in wage scales.

Senator FULBRIGHT. We had testimony a while ago that in the coal industry, our people produce 2 or 3 times as much per hour, per man as the same man in England, for example.

Mr. SAXON. It is not a comparable situation.

Senator FULBRIGHT. I certainly thought that our people are more efficient. Why is it that the automobile industry, Mr. Ford and others, say, "We would like freer trade. We are quite willing to compete"? Why is it that they can do it and you cannot?

Mr. MURCHISON. Senator, can I make one statement there? It is a factual statement.

Senator FULBRIGHT. Yes.

Mr. MURCHISON. I think it probably brings it out, just what you want to get. In Japan, it takes a worker about an hour and a half to make enough money to buy one yard of print cloth from gray cotton. In the United Kingdom, the wages are such that a man would work, an average production worker, 25 to 30 minutes, to buy a yard of the same cloth. In the United States, he can do it in 9 minutes.

Now, where is the efficiency? Our efficiency is greater. The wages are higher. But the differential in the wage rate as between the United States and these other countries is so great that it is utterly beyond the possibility of increased mechanical efficiency to overcome it.

Senator FULBRIGHT. And it does not really bear a relationship to his productivity? I mean, we are paying much more per unit of product than they are; is that right?

Mr. MURCHISON. The greatly increased productivity of the United States has gone into higher wages and lower prices relative to the cost of production, so that the unused margin in competition with the foreign countries simply is not there. It has been used up in higher wages.

Senator FULBRIGHT. You look like you want to make a comment, Mr. Piquet. Do you agree to that?

Mr. PIQUET. Is it not true, though, Dr. Murchison, that our exports of cotton cloth are greater than our imports of cotton cloth?

Mr. MURCHISON. Yes, that is quite true. And there is a special reason for that. Our exports of cotton cloth are the finished, high-quality goods. The imports——

Senator FULBRIGHT. You mean, we export more than we import?

Mr. SAXON. Yes.

Mr. MURCHISON. Oh, yes. Our exports of cotton goods are around 625 million yards a year.

Senator FULBRIGHT. For goodness sake. What do you want? Do you want to exclude all imports and sell every place all over the world? Do you want all of the market?

Mr. MURCHISON. Not at all. Our percentage of exports is very much smaller than that of the other major textile manufacturing countries. In the United Kingdom in western Europe, they export from 30 to 40 percent of their production. In Japan it is 40 percent of their total production.

Senator FULBRIGHT. What do we export?

Mr. MURCHISON. Our exports are about 6 percent of our total production.

Senator FULBRIGHT. But in absolute amounts, how does it compare? Because our production is so great.

Mr. MURCHISON. Well, we rank fourth in the world.

Mr. COPE. Mr. Chairman, I would like to suggest that the logic of Mr. Murchison's argument leads inevitably to no trade——

Mr. BROWN. No trade at all.

Mr. COPE. Because what he is suggesting is that you have to have an equalization of costs the world around. Once you got the equalization of costs, then what is the use of trading?

Mr. SAXON. There is all the difference in the world between fair and unfair competition, Mr. Cope.

Mr. COPE. We are willing to adress ourselves to that, too, Mr. Saxon. What do you mean by "unfair competition"?

Mr. SAXON. We have established over the years legal and competitive standards for the flow of products in international and interstate commerce, and other nations have not established those same standards. Any tariff could very well be used to adjust the differential so as to allow a foreign importer to sell over here on a fair, equal basis with American producers and not on an unfair competitive basis. All he should expect is a fair break. And if he is on an equal basis, what is wrong with that? Why give him an advantage because he is a foreigner?

Mr. COPE. The problem is to determine what is equal. That is the problem.

Mr. SAXON. I do not ask for anything more, and I do not think Mr. Murchison is asking for anything more.

Mr. COPE. If you mean simply equal wage rates; is that the equation that you want?

Mr. SAXON. Not at all.

Mr. COPE. I spent a good number of years in Europe. I can take the same machines you use in South Carolina, in your textile industries, and give them to the French, and they are not going to be able to compete with the Americans.

Mr. SAXON. That is true only in some industries because of various conditions.

Mr. COPE. They will not be able to compete because of the way they use the machines and organize their production.

I want to state that as a labor person, as one who came up from the ranks, I am not interested in putting American workers out of business by unfair competition. I am concerned about the business of determining what we mean by unfair competition and attempt to be reasonable in a collective world, let us say, or society.

We have got to give as well as take in this situation, and we are willing, as labor, to try to adjust ourselves to reasonable changes.

We propose, Senator, by the way, that if in our trade negotiations we do find genuine unfair labor standards, that we do not make tariff concessions. We go further and say constructively that it is our responsibility to negotiate and try to assist in the raising of those standards. That is what this is all about, in a large measure, the raising of the standards of the people in other parts of the world. It is not enough to say that the wage level itself is sufficient reason to call it unfair competition.

Mr. SAXON. Senator, there is all the difference in the world among various industries. You quoted the automobile industry of Mr. Ford, for instance, a moment ago, and you compared it to the textile industry.

In the first place, the economics of the situation is the important point in the differential between the two industries. In the textile industry, what we call the marginal situation, the point of diminishing return where you turn from a profit into a loss, is reached at a much lower level of volume of production than in the automobile field.

In other words, the law of diminishing returns sets in at a much lower productive volume level in the textile industry than in the automobile industry.

Now, Ford, General Motors, and all the other companies are large-scale, mass producers compared with the textile units. The textile industry is considered mass production, also; but relatively, one is an elephant and the other is an ant. And the increased efficiency that you get from the large-scale production, the reduction in cost per unit, is what makes it possible to overcome the wage differentials in the automobile field, where you may not be able to do it in certain sections of the textile field, and that test can be applied right across the board.

There are certain industries in this country that do not need any protection at all. There are others that need it greatly, because of this factor I have just mentioned.

Senator FULBRIGHT. To come back to one other thing that puzzles me very much, why do you need this protection so badly when you are now selling abroad more than you are importing?

Mr. SAXON. It is not the same thing at all.

Senator FULBRIGHT. How is it that you sell abroad, if they are all more efficient that you are?

Mr. MURCHISON. Senator, it is because the United States has the greatest mass market in textiles of any country in the world.

Senator FULBRIGHT. Yes——

Mr. MURCHISON. It is possible, therefore, in the United States, where the consumers really demand quality goods—it is possible for the textile industry to produce a vast variety of highly finished goods of novel designs, with tremendous appeal, the very latest, up-to-date fashions.

Outside the United States in other portions of the world, there is always a demand for the latest and the best designs, the newest thing in the way of textile fabrics. That characteristic throughout the world makes it possible for us to maintain a considerable volume of exports, which is due to these special factors, the special qualities of goods, and they are not on a price-competition basis.

If you take the great mass of goods, however, consumed in the United States, and they are mainly on the basis of price competition. That is particularly true in the gray-goods market.

As the goods come off the looms, at that point you have an open market price just like the raw-cotton market, and the heavy inflow of foreign goods at that point, which is the midriff of the industry, will simply undermine the entire price structure and put mills out of business, and completely demoralize the markets.

The distinction, therefore, between our power to withstand foreign competition in the home market and our ability to maintain a certain volume of export trade is a distinction which is technical due to very special factors. Prior to World War II, we had very little export trade because in the United States we had not developed the fashion characteristics in our products as we have them now.

Senator FULBRIGHT. Do you think that the wages should be equalized between the North and the South in the textile industry?

Mr. MURCHISON. You mean by Federal action, Senator?

Senator FULBRIGHT. Yes.

Mr. MURCHISON. No; I do not believe that Federal action should be used for the purpose of equalizing wages. I believe that that should be left to the economics of the situation. By that, we do not mean that we are in opposition to a reasonable minimum wage, but we do not think that the wage powers of the Federal Government should be used for the purpose of equalizing wages.

Senator FULBRIGHT. But you do think that we ought to use the tariff to prevent this equalization of trade or flow of trade in international——

Mr. MURCHISON. That is between the United States and other countries, and is for the preservation of our industries.

Senator FULBRIGHT. You do not think it would be beneficial to the whole United States economy as distinguished from your particular economy if we had freer flow of trade?

Mr. MURCHISON. If the textile industry were seriously damaged by tariff reduction, Senator, it would mean far more loss than a loss of jobs in particular textile mills. It would mean a loss to the farmers, because the consumption requirements of the United States, of course, would be greatly diminished. The great domestic purchasing power that holds up the price of the cotton in the United States and makes it possible to maintain a support program is because the bulk of American cotton is consumed in the United States. It is bought by the textile mills.

Now, if we had to sell the great majority, that is, the bulk of our cotton growth to foreign countries, we would be selling to countries of lower purchasing power. We would be selling to countries of state trading, of government regulations.

Senator FULBRIGHT. I do not know whether or not they would be. If the theory of greater trade is sound, they would not be lower. They would gradually be coming up to our level and be able to pay and be able to buy more things.

In other words, the theory, as I understand it, is that there are great parts of the world that need things that are in surplus now, and they cannot get them. And that trade is locked up by one way or another.

The demand, that is, the desire, the need is present, but there is no capacity to purchase, in many parts of the world. That is true, is it not?

One of the objectives, at least, is to find distribution and markets for all our produce, all these great surpluses we have. And how are you going to get them into the hands of people who need them certainly without giving them away?

Mr. MURCHISON. Senator, I think a large part of the explanation is one that has not been referred to here this morning, and that is that the great cotton goods consumption markets of the world are in the underdeveloped countries of the world.

In these underdeveloped countries, trade restrictions have reached their maximum, consequently the cotton goods which are manufactured by countries like the United Kingdom, Germany, and other countries of Western Europe, and Japan are not flowing into the markets which they would normally flow into.

Now, these markets to which these goods normally flow are markets which are already having the maximum benefit from trade with the United States. Our tariffs are not leveled against Latin-American countries to any measurable degree or against the Near East or against the raw materials of the world or the raw foodstuffs of the world.

These countries where the trade restrictions are at the maximum are the countries which enjoy virtually free access to the markets of the United States. So that is why we think we are standing on pretty firm ground when we say that if you do away with those trade restrictions, then the United Kingdom and Western Europe will find their markets for the cotton goods.

Senator FULBRIGHT. I do not think that you can look at that on the basis that each country has to be balanced. It is the total trade with all the world that really concerns us, is it not?

Mr. MURCHISON. Yes. In fact, that is what we have done.

Senator FULBRIGHT. The fact that you say it is against one particular country is not really the point.

Mr. MURCHISON. We are in a deficit situation, Senator, with the rest of the world. We are in a hole to the extent of $2.5 billion a year. And the assumption that we are not buying goods is wrong.

As a matter of fact, our purchases of goods and services from foreign countries in the third quarter of 1953 were greater than what we sold to them. The rest of the world is what I am talking about.

Senator FULBRIGHT. I have not seen any such figures.

Mr. SAXON. Those are right.

Mr. MURCHISON. I have the trade balance right here in front of me.

Senator FULBRIGHT. What are you doing? Deducting our foreign aid program from the amount?

Mr. MURCHISON. The surplus dollar receipts of foreign countries are almost twice as much as the total amount of our economic aid. The military aid, of course, balances itself out. There is not a question of dollars versus goods in military aid.

But take the normal flow of goods. Take that part of world trade which is economic trade, which is commercial trade; the United States is in a deficit position at the present time to the extent of $2.5 billion, over all. You can subtract from that the total volume of economic aid. And the rest of the world will still have a big surplus.

Senator FULBRIGHT. Was this last year, 1953?

Mr. MURCHISON. Yes, sir. This is 1953.

Mr. SAXON. That is right.

Mr. MURCHISON. As a matter of fact, Senator, I do want to point out that the references made here this morning to the tremendous increase in exports—as a matter of fact, that is not so.

The export trade of the United States has not increased so much as a dime since 1947. The big increase has been on the imports, going right up. I have the figures here——

Senator FULBRIGHT. I have been misinformed. I hope you will put them in the record.

Is that your information, Mr. Brown?

Mr. BROWN. No, sir, I do not think so.

Mr. MURCHISON. That is absolutely true. I have the figures here.

Mr. SAXON. That is correct.

Senator FULBRIGHT. It does look as if you people ought to agree on those figures.

Mr. MURCHISON. From 1947 to 1952, exports were down. We made a rainbow dip. They were 20 percent under the 1947 level. What has been going up? Imports, just like this. Absolutely unbroken in any year since 1949, when they diminished by half a billion dollars, because of the recession in the United States.

Mr. SAXON. Those are official United States Department of Commerce figures.

Senator FULBRIGHT. What about it, Mr. Piquet? Are those the figures?

Mr. PIQUET. On page 223 of the Economic Report of the President, table G–52, it is shown that when the figures are converted to a uniform base, 1936 to 1938, and account taken for inflationary price rises, the quantity of imports has increased from a base of 100 to 159 in 1953, and that exports have increased from 100 to 262.

With respect to the same base period exports are much larger, and imports much smaller, than the country's gross national product.

Mr. MURCHISON. But Howard, is my statement correct or isn't it correct, that exports have not increased since 1947?

Mr. PIQUET. According to table G-49 (on p. 219 of the Economic Report of the President) exports and imports of goods and services of the United States since 1947 have been as follows:

[Billions of dollars]

	1947	1948	1949	1950	1951	1952	1953 [1]
Exports of goods and services.							
Total	19.8	17.0	16.0	14.4	20.2	20.6	21.4
Less: Unilateral military transfers	.1	.4	.2	.6	1.5	2.6	4.7
Net total	19.7	16.6	15.8	13.8	18.7	18.1	16.8
Imports of goods and services:							
Military	.5	.8	.6	.6.	1.3	1.9	2.5
Other	7.8	9.5	9.0	11.5	13.8	13.9	14.3
Total	8.3	10.3	9.6	12.1	15.1	15.8	16.8

[1] January-September data at annual rates.

Mr. MURCHISON. We are talking about the payments balance. That is in dollars.

Mr. SAXON. Right.

Mr. MURCHISON. And you have to take the import dollars and the export dollars, because they balance out dollar for dollar. What it is in 1938 figures is meaningless. The fact is that if you take the dollar volume, you have your imports moving up steadily because they supply the dollar flow. They have been moving up steadily.

I have the figures in front of me. In 1950 and 1951, in those 2 years, the commodity imports were bigger by $4 billion on an annual basis than they were in 1949.

Senator FULBRIGHT. And were they bigger than the exports?

Mr. MURCHISON. No. But they have been catching up with the exports, and in the third quarter of 1953 they went by them.

Mr. SAXON. For the first half year of 1953 they went far by them.

Mr. BROWN. Mr. Chairman, I would like to make an observation on that.

Senator FULBRIGHT. I wonder if the Brookings Institution has the facts about this. What do you think about it?

Mr. BROWN. I wish we had some of the staff papers of the Randall Commission here, which deal with this problem which worried the Commission very much, as to whether or not our accounts, on current account, were in balance or not. I wonder if Mr. Murchison would agree that in the import figures we include stockpile imports, we include the expenditures for purchases for our forces in Germany and elsewhere, and we include our offshore purchase figures.

Mr. MURCHISON. They are part of the payment balance. But they have been diminishing.

Mr. BROWN. I know. But I think that the expert figures we got from the Randall Commission were that they would probably reach a maximum by this year or next year of something over $3 billion, and then begin to taper off. Those are not normal commercial imports, and they conceal, I think, the imbalance in our current account, if you include them in the import figures.

That is, I think, one of the troubles we have always had, because you can show figures showing the current account is in balance, and yet some of those elements are very transitory.

In the first 3 quarters of 1953 our exports of goods and services were \$16.1 billion. Of these, \$3.5 billion was military aid, leaving \$12.6 billion in commercial exports. Our imports of goods and services were also \$12.6 billion. We were not running a deficit on current account and, as I have said, even the statistical balance shown in our current account figures is deceptive. Only if our economic aid during this period (\$1.3 billion) is deducted from our commercial exports, while our stockpile purchases, offshore purchases, and expenditures for our forces abroad continue to be included in our imports, can a showing be made that we were running "in a hole" by a substantial amount. To do this is to put a very strained interpretation on the figures. The fact that we financed part of our commercial exports by foreign economic aid does not mean that we were really debtors on current account. Nor does the fact that our imports were equal to our commercial exports, or even slightly greater in the third quarter of 1953, mean that we have solved our balance-of-payments problem. What the figures do show is: (1) That our economic aid was sufficient to enable other countries to build up reserves and thus approach nearer to convertibility; and (2) that our economic aid had this effect only because our imports were built up by large Government purchases which are expected to be temporary.

Mr. MURCHISON. Senator and Mr. Brown, most of these stockpiling figures which you speak of simply represent a device on the part of the United States Government to buy through Government agencies for special reasons goods which otherwise would have come in, anyway, to a very large extent.

Mr. BROWN. That, of course, is quite hypothetical. I am not sure that we can say that.

Mr. VERNON. Mr. Chairman, these figures, of course, lend themselves to endless confusion, but they must not be allowed to obscure a few main facts.

One of them is that our exports have been bigger than our imports a long, long time. It is perfectly true that our exports between 1947 and 1953, measured in dollars or measured in quantity, have not grown the way imports have grown, that exports have remained more or less stable—there are dips up and down—while imports were growing.

But this is almost irrelevant to the question. The fact is that the imports were growing from a very much lower level than that at which the exports were being maintained. It is also true that the exports are being maintained by all sorts of extraordinary devices which all of us agree we would like to get rid of.

So irrespective of the figures one introduces and subtracts and manipulates, the main fact is that we export more than we import, and that we would like to get rid of our aid and continue our exports if we possibly can. These emerge as two of the fixed points in this discussion.

Mr. COPE. Mr. Chairman, I would like to make one observation that I think the committee should keep in mind in trying to determine the impact of imports on our economy in any particular industry.

We mentioned the cotton textile industry. One of the problems that we confront and one that is very difficult to get at because you have to spend a lot of time arriving at the information and the statistics on it, is to determine how much of the chaos that prevails in the industries that you are talking about is due to internal matters rather than the threat of import competition.

I am thinking, in the textile industry, of the question of the dislocations that take place with the change of commodities themselves, and the yarns that are used, synthetics versus cotton, for instance.

It is extremely difficult to unravel the condition of an industry as it would be if it were in isolation in the United States as opposed to the condition that foreign competition brings to that industry.

Now, let me mention specifically an item that I know a little more about, because we are directly involved in it. Take the lead-zinc situation and the copper situation. There is a considerable hue and cry being raised for increased tariffs to protect our lead-zinc industry.

What we find, and what we suspect more than we have found yet, is that a good deal of the problem centers on the marginal mine, and the marginal lead-zinc producer, which I doubt very much tariffs would do much to help.

Senator FULBRIGHT. In other words, we have a group of people in Utah who are in desperate straits because they cannot mine lead and zinc at present prices and keep solvent. The issue, as we see it, is the problem of getting at the causes of the difficulties. We have serious doubts that increasing tariffs would provide adequate relief for these people. Other methods most likely would do more.

If you raised the price of lead and zinc by virtue of higher tariffs, a section of the industry stands to gain in higher profits because of price increases. This would likely happen even though the increase in prices would not help the high cost situations.

My guess is that the consumer, in the long run, would pay the bill if tariffs were raised in this industry and the bulk of the present problem would still be unsolved. Consequently, some other device has to be found to take care of these marginal situations that are developing.

Mr. Cope, did you ever hear of Mr. Ambrose Bierce's definition of a tariff? He says that a tariff is a scale of taxes on imports designed to protect the domestic producer against the greed of the consumer. Isn't that a pretty good definition of it?

Mr. COPE. I have not heard it before.

Mr. MURCHISON. Could I ask for the distinction between American consumers and American workers?

Senator FULBRIGHT. Mr. Cope represents the workers here. I will leave that to him.

Mr. COPE. I wish to state that I do not want anyone to leave this hearing with the impression that I am interested in throwing a group of workers on the scrap pile.

All that I am suggesting, gentlemen, is that this problem is not the kind of problem that finds one single solution. I am disposed to think, on the basis of my rubbing shoulders with people who are involved in tariff discussions, that they try to oversimplify the answers, and that usually the oversimplification leads to tariff imposition that give big windfalls to some people, and no help to others. And we are trying to get at the solution. We are not going to let it go by the board, because we have these workers up in Utah as well as others that are knocking on our door 24 hours a day every day in the week, and we want to solve their problems on some basis that brings a real solution to those people as well as to the economy as a whole. We think we have to look at this in terms of the welfare of most of our people and try to help those that might be hurt by pursuing a policy which tends to improve the whole economy.

Mr. MURCHISON. Is your industry making a windfall out of the tariff, Mr. Cope?

Mr. COPE. Which industry?

Mr. MURCHISON. The industry that your workers——

Mr. COPE. We deal with the aluminum industry and the iron and steel industry and the lead zinc industry. You would be surprised at the difference of opinion among the people within the industry.

Mr. MURCHISON. Yes; I know.

Mr. COPE. They are not uniform in their opinions on this, either, even when they come before the Tariff Commission for solutions. So it is not as simple as it sounds.

Senator FULBRIGHT. Mr. Cope, you know what impressed me about this argument—and it is not simple, I agree with you—but for many years it was thought in the North that the development of industry in the South would injure the North. That was current for 75 years.

Finally, as a result of the World War and other reasons, not because of any intelligent planning, but circumstances began to develop industry in the South. What they found is that the increased purchasing power on the part of the South, greater consumption of many different kinds of products—you have mentioned in New England, they have lost some of their textiles, but they are making more watches and jewelry, and machines and various kinds of products of highly skilled workers—and they are still more prosperous than they were. I mean, both areas are more prosperous because of the increased consumption all the way around.

Is that a sound analysis of this, or maybe an oversimplification?

Mr. COPE. I think it is sound as far as it goes. But there are other factors involved in that situation that improve it, too, Senator.

The trade unions went down there and almost eliminated the reason for moving them down there, low labor costs.

Senator FULBRIGHT. I disagree with you that that is the main reason. There are many reasons other than wage rates.

Mr. COPE. I agree with that.

Senator FULBRIGHT. There again, the unions have oversimplified that, that they moved just because of wages. There were a lot of other reasons why. That was only one of them. Is that not right?

Mr. COPE. That is correct.

Senator FULBRIGHT. But in any case, the net result has been that this movement of industry to the South has not really hurt the North. It has caused, temporarily, dislocations, a relocation, has it not?

Mr. COPE. If you take the North in its composite whole, presumably that is the argument.

Senator FULBRIGHT. But is it not the truth?

Mr. COPE. New England is in bad shape because of the textiles moving down.

Senator FULBRIGHT. I notice that the per capita income of Connecticut seems to hold up pretty well. They are still way above the national average. They have not maintained a monopoly of all the money, but they still are better off, far better off, than the national average.

Mr. COPE. Let us put it this way. If industry had not moved from New England to the South, the South would be in bad shape now, much worse than they were, and New England would be better.

Senator FULBRIGHT. Is it not a fact that the Nation as a whole has made great economic progress? I do not think they have learned very much, but they have got more dollars. That is true, is it not?

Mr. COPE. That is right.

Senator FULBRIGHT. And the South and the North are more prosperous than they used to be. You do not deny that, do you?

Mr. COPE. No.

Senator FULBRIGHT. Well, that is the only point I am trying to make, that they have not gone broke in New England, although they have lost some of their textile industry. They have supplanted it with other industries, have they not, to a great extent?

Mr. COPE. Yes.

Mr. SAXON. Senator, you are not quite fair to New England when you single out Connecticut, because Connecticut, although it did have some textile industry, was a relatively small producer of textiles.

Senator FULBRIGHT. I mentioned it because I think you have the highest per capita income of any of these New England States.

Mr. SAXON. Yes, but it is not made in textiles. It is Massachusetts, New Hampshire, Vermont, and the others.

Mr. MURCHISON. Rhode Island.

Mr. SAXON. And Rhode Island. Connecticut has never been known as a major textile producer.

Senator FULBRIGHT. No. But you have your industries. You have had enough sense in the last 75 years to direct the national policies for your benefit. And I will give you full credit. You sent people down here who understood how to get what you wanted.

Mr. SAXON. I was born in South Carolina, Senator.

Senator FULBRIGHT. Yes. That is a good example. They come down here and hire our cleverest people to go up and work for them and divert the whole Government to their purposes.

I will yield the floor, Mr. Chairman.

Chairman WOLCOTT. I think that this has been very helpful and most instructive to all of us. I want to express the appreciation of the committee for you gentlemen taking your time and energies to make this very valuable contribution to our studies.

Tomorrow we will meet in this chamber for the panel discussion on savings and finance outlook, at 10 o'clock. Unless there is objection, the committee will stand in recess until tomorrow at 10 o'clock.

(Whereupon, at 1:05 p. m., Monday, February 15, 1954, the committee recessed to convene at 10 a. m., Tuesday, February 16, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 16, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:15 a. m., in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott; Senators Flanders and Carlson; Representatives Talle and Patman.

Also present: Grover W. Ensley, staff director; John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order.

We are met again to consider further the President's Economic Report, and we have a panel discussion this morning on the savings and finance outlook and implications for Federal economic policy.

We have with us Mr. Gordon W. McKinley, economist, with the Prudential Insurance Co.; Mr. Arthur A. Smith, vice president and economist of the First National Bank of Dallas; Mr. Lawrence H. Seltzer, professor of economics, Wayne University, in Detroit; Mr. Roy L. Reierson, vice president and economist of the Bankers Trust Co. of New York; and Mr. Winfield W. Riefler, assistant to the Chairman of the Federal Reserve Board.

We are very glad to have you all here, and we look forward to a very profitable morning.

As is customary, I believe we shall allow the panelists to continue with their statements without interruption and then we may ask questions. I want the panelists to feel that they may ask questions of each other and get into the discussions as they care to.

Senator CARLSON. Mr. Chairman, before we start hearing the witnesses, I would like to state that it is going to be necessary for me to leave at 10:30 to attend another meeting. I regret it very much, because I know this is going to be an interesting panel and a profitable discussion.

Chairman WOLCOTT. We are very sorry. But we are glad to have you here as long as it is possible for you to be here.

We will recognize you, Mr. Riefler.

STATEMENT OF WINFIELD W. RIEFLER, ASSISTANT TO THE CHAIRMAN, FEDERAL RESERVE BOARD

Mr. RIEFLER. Mr. Chairman and gentlemen of the committee, in the 3 weeks that have passed since the presentation of the Economic Report, additional evidence has come to hand on the nature and extent of the current reaction in economic activity. On the whole, this evidence tends to confirm rather than modify the diagnosis there presented that "the contraction since last June or July has thus far been largely in the nature of an inventory adjustment." It has also been affected, of course, by the decline in defense outlays.

Final demand at retail has held up remarkably well in the face of the decline in employment. That decline in employment, moreover, has been confined for the most part to manufacturing industry in response to a decline in commodity output. As a result, a sizable absorption of excessive inventories is being effected. Inventories, as a whole, however, are still higher than a year ago.

Although information now becoming available indicates that the reaction to date has been sharper than was known when the economic report was in preparation, it does not seem to have shaken the general expectation of businessmen that it will be short lived. This is suggested by the continued small response, both in the markets for primary commodities and for securities, to the declines in output that have already taken place.

Recent news, of course, has not been uniformly on the side of decline. Since the economic report was prepared there has been further confirmation of the view there expressed that increased outlays by State and municipal authorities would help bulwark the economy this year. The outlook for the crucial construction industry has also firmed in recent weeks. As a result, it does not now appear unreasonable to look for another high year in construction activity.

Against this view must be set the fact that the Federal Reserve Board index of production—the January figure was released yesterday—has now probably declined about 10 percent since last July, or by a proportion equal to the full decline in the 1948–49 reaction. While this decline does not change the diagnosis that the current reaction reflects primarily an unbalanced inventory situation, it raises the possibility that it may in itself set forces in motion that will spread more widely over the economy. It is impossible to evaluate this possibility at the present time. It is important to remember that the reaction in 1949 was exceptionally mild. Activity in durable goods lines recovered quickly under the stimulus of pent-up demands following the war. In my personal judgment, the quicker unbalanced inventories are adjusted the better, provided general consumer expectations and business confidence are not disturbed. It is clear, however, as the Council of Economic Advisers states, that the economic situation will demand careful watching during the next 6 to 9 months.

Whatever the course of the contraction, whether it proves mainly self-correcting as in 1949, or more troublesome, it would be difficult to envision a constructive outcome in the absence of appropriate monetary and credit policies. In this case, the indicated policies were initiated early, earlier in fact than has been customary in the past. As early as last May, the Federal Open Market Committee began operating to ease pressures on bank reserves, not primarily because it foresaw at that time a recession in the making but because of the sudden appearance of more tension in the financial markets than it considered appropriate. This policy was further developed in June, while in July the Federal Reserve Board relaxed the reserve requirements of member banks. The effect of these two actions combined was to increase reserve funds available to member banks by over $2 billion and to change the tone of the money markets from one of restraint to one of ease. As the economic outlook shifted in subsequent months, the Federal Open Market Committee operated again in September and October and again in December to maintain and accentuate this ease by providing in advance the reserve funds usually required to meet seasonal drains toward the year end.

The funds released by the reversal of these seasonal drains in January have in turn been absorbed by the Federal Open Market Committee. During the last 2 weeks all of the Federal Reserve Banks have reduced their discount rates.

The financial markets have responded to these moves. For the member banks as a whole, excess reserves for some time have been larger than their borrowing at the Reserve banks. This has induced an easier tone in the money markets and has been reflected in lowering interest rates on new borrowing and lowering yields on outstanding issues. The mortgage market is active and seeking borrowers. Corporate borrowers, both those of the highest quality and those of less well-known standing, can find a ready market at favorable rates.

In spite of a very large increase in their needs for funds, States and municipalities can now borrow on the average for less than at any time since 1952.

At the time these actions were initiated by the Federal Reserve, particularly those in the summer and early autumn, they were based necessarily on a reasoned judgment of the general nature of coming economic developments. In assessing the role of monetary policy in relation to economic fluctutions in a free economy, it is important to keep in mind two facts, first, that monetary policy, however appropriately conceived and executed, cannot guarantee economic stability at high levels of employment, and second, that the achievement of such stability without appropriate monetary policy is probably impossible under modern conditions.

Monetary policy can do little to slow down an adjustment of unbalanced inventories once the adjustment is under way, other than to remove unavailability of credit as a cause for distress inventory liquidation. It can and should, of course, operate to diminish the incentive to over accumulate inventories in the upswing of the cycle. One of the reasons for confidence at the present time that inventory imbalances may not be too serious is that the recent boom was characterized by price stability and there was little or no incentive during the upswing to acquire inventories in anticipation of price advances.

On the other hand, monetary policy can go far during a contraction to create a situation where loanable funds will be available to credit worthy potential borrowers at interest rates and on terms more favorable than are likely to prevail at other times.

In an economy characterized by open freely functioning markets, dynamic growth, high income, and widespread diffusion of purchasing power in the form of liquid assets, this should help to speed up and to accelerate investment, particularly long-term investment. The fact that State and municipal expenditures and also construction expenditures now projected for 1954 are currently firm in spite of the current contraction of production is in part a direct response to the readier availability of funds in the capital markets.

Chairman Wolcott. Thank you, Mr. Riefler.
Mr. McKinley.

STATEMENT OF GORDON W. McKINLEY, ECONOMIST, PRUDENTIAL INSURANCE CO. OF AMERICA

Mr. McKinley. Mr. Chairman, members of the Joint Committee on the Economic Report, and other members of this panel, I would like to state briefly my views on the outlook for the demand and supply of loanable funds in 1954, with particular reference to life insurance accumulations and commitments.

I expect the general level of business activity to be well maintained in 1954, with the gross national product for the full year being not less than 3 percent below 1953. As a consequence, the private demand for loanable funds should be only slightly below last year. State and local demand for funds will be above last year, so that the total demand for loanable funds, apart from the demand of the Federal Government, would be very close to last year's figure.

The big difference in the demand for funds in 1954 will come not from the private or State and local government sectors of the economy, but from the Federal Government. Whereas the Federal Government went to the market in 1953 for a net increase of over $5 billion of new money, in 1954 it will probably require not over $1 billion of new money. Principally because of this reduced borrowing by the Federal Government, the total demand for loanable funds in 1954 will be significantly smaller than in 1953.

On the supply side, it is helpful to separate the commercial banks and the Federal Reserve banks from other sources of loanable funds. The nonbanking supply of loanable funds in 1954 will probably be slightly smaller than in 1953. Savings through institutions in this nonbanking sector will for the most part be equal to or higher than in 1953. The net increase in earning assets of life-insurance companies, for example, will be about $5.5 billion in 1954 as compared to $5.2 billion in 1953. The net savings inflow of savings and loan associations in 1954 is estimated by the National Savings & Loan League as equal to the $3.5 billion achieved in 1953, and I myself think they may show a small increase. Offsetting this rise in savings offered through institutions will be a decline in the volume of funds offered directly by individual lenders including nonincorporated businesses. Much of this direct individual lending is brought into the market only when the demand for funds is extremely heavy and interest rates are high. In the easy conditions prevailing at present, borrowers will prefer loans through institutional channels. The reduction in noninstitutional loans will more than offset the small rise in institutional lending, so that the nonbanking supply of funds in 1954 will be slightly less than in 1953.

If the Federal Reserve does not add further to bank reserves, the total supply of investable funds including that from the commercial banks will just about balance the 1954 demand at the current relatively low level of interest rates. In other words, the market will remain quite easy, but there will be no strong pressure for a further decline in interest rates.

With respect to the loan commitments of life-insurance companies, the situation appears to me to be as follows:

Total new loan commitments of life-insurance companies have been remarkably stable for the past few years. The total is at present holding at approximately this same stable level, giving no clear indication of any substantial change in the demand for funds nor of any substantial change in the flow of investable funds. Within the total, there is some indication of a decline in new commitments for industrial loans; both industrial mortgage loans and loans made through the purchase of securities.

New residential mortgage loan commitments, on the other hand, appear very strong. This is undoubtedly due not only to the maintenance of a high level of activity in the housing market, but also to the continued effort by the life-insurance industry to devote an increasing proportion of its investable funds to this important segment of our economy.

The most dramatic change occurring at present is the very sharp increase in commitments for VA loans. The life-insurance investment commitment picture as a whole seems to indicate adequate outlets for funds at present low interest rates, with some tendency for an even greater proportion of funds to flow into residential mortgages, particularly VA mortgages.

I have predicated the foregoing forecast of a fairly stable money market at present interest rates on the assumption that the Federal Reserve will not take further action to ease the market. I would like to say just a word or two concerning what I think would be appropriate Federal Reserve action in the next few months. I feel that the Federal Reserve should not take further action to ease the money market. The Reserve banks should, of course, take their normal action to smooth out the seasonal fluctuation in the market, but they should not make further net additions to the supply of funds. The market is already sufficiently easy to take care of all sound demands for funds.

Further pouring out of Federal Reserve credit will not in my opinion, increase the volume of private borrowings and will serve only to knock down interest rates, which are already at extremely low levels.

The life-insurance industry has consistently taken the position that it is not low interest rates which encourage business borrowing, but a plentiful supply of loanable funds. Low interest rates are of course associated—at least, usually associated—with a plentiful supply of funds, but no purpose is served by forcing interest rates down after sufficient ease has been introduced into the market to provide a plentiful supply of funds for all sound borrowing needs. To deliberately reduce interest rates beyond this point will not increase the volume of loans, and it appears to me to constitute a method of forcing life-insurance-company policyholders—the great majority of whom are not wealthy individuals—to subsidize borrowers.

In 1951, the life-insurance industry favored the removal of the Government-bond pegs because we felt that that removal would tighten the supply of funds and curb the then-existing inflation. In the first few months of 1953, opinion was widespread in the industry that Government-security yields were being driven up beyond the point necessary to sufficiently tighten credit. At present, it is my own opinion that the Federal Reserve is engaging too extensively in open-market purchases. There is already an adequate flow of funds to meet all sound demands, so that no further easing of credit is necessary or desirable.

If the Federal Reserve will avoid further positive action to ease the market, I believe all sound needs for funds in 1954 will be adequately supplied and that an outlet will be found for all investable funds at the present low level of interest rates.

Chairman WOLCOTT. Thank you, Mr. McKinley.

Mr. Smith.

STATEMENT OF ARTHUR A. SMITH, VICE PRESIDENT AND ECONOMIST, FIRST NATIONAL BANK, DALLAS, TEX.

Mr. SMITH. Mr. Chairman, committee members, in the economic report of the President, there are set forth several conditions essential to economic progress. Two of these relate to money: (1) An ample supply of savings upon which the growth of real capital depends; (2) "a supply of money in keeping with the increase in the physical volume of production and trade."

Traditionally, as all of us know, saving has been a great American virtue. When the country was young and much less developed than now, our capital needs exceeded what we could save ourselves. Large sums came from abroad in those days.

In the course of time, however, we were able to supply to an increasing extent necessary capital from our own savings, and institutions for gathering and utilizing such funds grew steadily in number, until today no other country in the world can equal us in this regard.

Obviously American thrift has made an essential contribution to the growth of our great industrial system and to our unequalled high standard of living. And, interestingly enough, too, industry's employment of our people and the people's high level of living in turn have encouraged savings.

With the exception of war periods when, because we have not been prepared, vast sums of capital have been needed immediately for war plants, the American people in the 20th century have been able and willing to save voluntarily practically all the capital funds essential to economic progress.

I see no reason to suppose that such will not continue to be the case unless something happens to cause people to lose confidence in the future value of the dollar. Despite the fact that the dollar has lost almost one-half of its buying power since 1939, it remains the best monetary unit in the world, and confidence has been maintained. Most people I have talked with about this aspect of our money—and I have talked with quite a number of them—seem to take the decline in the dollar's value rather philosophically, as a condition largely inevitable under the circumstances. Some have expressed to me this sort of attitude: "When the dollar bought in the thirties twice as much as it now buys, I did not even have a job all the time; and when I did, my earnings were meager. Now I have a good job and earn good wages. Even if the dollar is worth only half as much, I get more than twice as many dollars. So what?"

That attitude I have encountered a number of times in talking to people.

The few exceptions to this observation have been people whose incomes have remained relatively fixed or have not kept pace with increasing costs of living.

But taken in the aggregate, the American people have not been deterred in their inclination to save since 1939. In fact, their savings have exceeded those of any similar period in history. And although interest rates are a factor in encouraging savings, we do not save in proportion to interest rates. To many people the interest rate is a secondary determinant. Largest influencing factor is income.

Another point worthy of note is that the vast majority of people who save do not themselves determine the real economic use to which their savings are put. Such decisions are made largely by institutions with whom the savings are entrusted—banks, savings and loan associations, insurance companies, et cetera.

Their decisions have an important influence upon the economy. But let me hasten to say that such decisions are not purely arbitrary and subjective on the part of those who make them. They are made within the framework of certain determinants, among which are: (1) interest rates; (2) nature of obligations to those who saved; (3) obligations to stockholders; (4) laws and regulations affecting financial institutions; and (5) general economic conditions.

It has been a common mistake to think that the mere existence of funds or the machinery for creating them means that those funds will be put to use. If economic conditions are none too promising—if enterprisers' expectations are not good—applications for available funds will decline, and even a very low interest rate will not induce borrowing and utilizing funds. Also those who make application for funds under such economic conditions, very likely would find greater resistance from lending institutions than had been the case in more promising periods. I think that is particularly true of institutions, like commercial banks, whose obligations are mostly of a demand nature.

But no institution cares to make a loan at any time unless there are reasons to believe that the loan will be repaid—just as it is true that most enterprisers don't care to ask for loans unless they see a chance to use the funds advantageously.

It is hard to establish cause and effect. It is difficult to take a clear-cut stand, for example, that our banking system is an active originating agent in any phase of the business cycle. On the other hand, I certainly would not say that it is an entirely passive agent.

When attention is directed specifically to commercial banking, we encounter an institutional system that does not depend strictly upon voluntary savings and upon its own capital for funds. It is able to create funds through the lending process and does so upon demand—when the decision-makers think that the loans can be used in such a way as to generate the means of their repayment. Similarly, the system extinguishes or destroys money when loans mature and are not offset by other loans.

Our commercial banking system, as it now exists, has power to make available any amount of money conceivably needed by business for working capital and other purposes ordinarily served by the commercial banking function. It is sufficiently flexible and adaptable to do so. But it is something else again to say that the system should be held responsible for the periodic variations in the extent to which such funds are actually used. Money available and money at work are not identical.

It is true that announced changes in reserve requirements may have at times some psychological effect upon enterprisers and bankers, but it does not follow that changes in reserves to make funds more available result in proportionately greater use of funds; nor does it follow always that increased reserve requirements result in proportionately less use of funds. Yet it is true that the volume of business and the volume of money in use tend to fluctuate together.

This would seem to lead to the proposition that changes in business activity cause similar changes in the volume of money in use rather than that changes in the money supply cause business changes. In other words something first happens to business to exert either an upward or a downward pressure upon loan demand. Once the trend is underway, it is conceivable that bankers themselves might contribute to the pressure, but most would deny that they originated the trend. For example, business conditions might deteriorate to the point that bankers would regard it necessary to remain more liquid, either by retaining a larger percentage of cash or by maintaining a stronger primary reserve position. To achieve this, they would adopt a tighter loan policy, perhaps calling some loans and refusing to renew or make many others.

This was particularly true in the days when banks feared runs on them. There is less excuse now since all but an insignificant few banks are under the protection of the Federal Deposit Insurance Corporation.

Furthermore, the Federal Reserve authorities should make it unnecessary for any bank to exert downward pressure upon loan demand, or for any bank to turn down a worthwhile loan.

But we come back to the point that cannot be eluded—economic conditions may be such that there are fewer worthwhile loans even under the customary standards of credit followed by banks.

And that raises the question: Should bank loan standards be reduced on the hope of stimulating business activity? Without some takeout or guaranty by the Government or the Federal Reserve authority, I am afraid banks would not follow such a course in light of their responsibilities to depositors and stockholders.

Here is an implication for Government action. At neither extreme—down or up—can it be expected that the commercial banking system deliberately will apply either stimuli or brakes—as the respective case may be—to business activity. Such must come from a more effective, centralized authority.

Despite the fact that we are the most advanced people in the world in matters of economics, we still have not found for sure what it is that swings economy periodically from expansion to contraction. Most popular explanation at present is that the economy does not generate steadily a sufficient effective demand to take off the market at remunerative prices all that can be produced. But this is an inadequate explanation because it begs the question: Why? Is it due to inequalities in income distribution? Is there some defect in the price system? Do enterprisers miscalculate when capital goods and plant capacity are planned? Do periods of expansion stimulate an optomistic psychology which leads to a liberal supply of credit which in turn leads to an abnormally high effective demand at the time only to cause contraction when millions of indebted people—producers and consumers alike—must repay the credit out of their future incomes thus lowering effective demand at a later period?

Or is the trouble due to something that causes disequilibrium between savings and investment? Or is it because durable goods producers in their eagerness to supply a pent-up demand at one time operate at above practical capacity—around the clock and on holidays—only to have to curtail at another time because they sold products in 1953 that they might have sold in 1954?

Whatever it is—it is not a lack of raw materials in this great country, or a shortage of plant facilities, or an inadequacy of transportation, or a dearth of manpower, or a deficiency in managerial ability, or a want of technological knowledge, or a scarcity of capital funds. All these we have in abundance, and when they are coordinated toward a common objective—like winning a war—their output amazes us all, as was true in the forties.

But the mere availability of all these ingredients essential to baking a great economic pie does not assure us that the pie will be baked. Something else is needed—something less tangible, and difficult to define. It might be called the will to do, or it might be referred to as a coordinating, perhaps stimulating, ingredient, or maybe we should borrow a term from chemistry and label it a catalyst. Whatever it is, economists do not seem quite to have agreed upon a term. Some refer to it as effective demand, others call it the prospect of profits; still others like to describe it as enterprisers' expectations.

This vague something has grown in its essentialness over the years. It has become more and more important with increasing economic complexity—with the rise of specialization and greater interdependence among us.

In the dark days of the great depression of the thirties, a young German scholar told me that he could not understand why America was economically depressed. "She has everything", he said. Yes; we had everything, except the catalyst in proper proportion.

We should double our efforts to find out what this catalyst really is and how it can be reasonably stabilized in the interest of economic progress. I am of the opinion that monetary factors are only a part of this catalyst.

As the President points out in his Economic Report:

> A high and sustained rate of economic growth is necessary to the welfare, if not the survival, of America and the free world.

Gentlemen, I think it is every bit that important.

In terms of secular trend the American economy—in an environment of freedom—has always progressed economically. From each depression it has recovered to go on to greater heights than before. In the relatively short run, however, we have experienced disturbing and sometimes distressing fluctuations. It is against these that we must strengthen our already built-in stabilizers and find additional ones to smooth the curves more in conformity with the secular trend of economic progress.

I would conclude by adding, gentlemen, that I think we are and have been for a number of years attaching too much importance to monetary factors in finding a solution to our problems.

Chairman WOLCOTT. Thank you, Mr. Smith.

On the question of monetary policy, Mr. Lawrence H. Seltzer.

STATEMENT OF LAWRENCE H. SELTZER, PROFESSOR OF ECONOMICS, WAYNE UNIVERSITY, DETROIT, MICH.

Mr. SELTZER. Mr. Chairman and members of the committee, the great danger at the end of any inflation period is the natural tendency of public officials and private citizens alike to be more fearful of the possibilities of further inflation than of the possibilities of deflation and the severe dislocations and unemployment that often accompany it. Historically, the longest and deepest declines in the price level have occurred after major wars, such as the 35-year decline in Great Britain after the Napoleonic Wars and the 30-year decline in the United States after the Civil War.

Between 1920 and 1930, following World War I, our wholesale commodity price index fell 44 percent. This price decline was sharp in 1920–21, then mild until 1930.

What is our price situation and outlook today?

If we judge by the most conclusive of all tests, the behavior of prices in free markets, the United States had grown up to its war-expanded supply of money and other liquid assets by the end of 1951. The broad index of wholesale prices has moved mainly, though gently, downward ever since, and the consumer price index has risen only slightly—less than 2 percent—with that rise largely accounted for by previously delayed advances in such regulated items as rent and public-utility rates.

This stability in the general level of prices since 1951 occurred in the face of a huge volume of military expenditures superimposed upon record-high public and private outlays for new construction, plant equipment, and consumption. It occurred also despite an addition of $4.4 billion to the total of adjusted demand deposits and currency in 1952, and of half that amount in 1953, as well as additions during these years of $4.4 billion and $4.5 billion, respectively, to the total of adjusted time or savings deposits.

I think it is significant that the intensified credit restraints that were put into effect for precautionary purposes in the forepart of 1953 had to be reversed so quickly. As late as April 9, 1953, a counterinflationary objective was clearly implied in the Treasury's offering of a 3¼-percent 30-year bond. These bonds carried an interest rate higher than the then-prevailing average yield of Moody's Aaa corporate bonds—3.18 percent—though the Treasury obligations commonly command a lower rate.

The announcement of the 3¼-percent Treasury bond set off a general downward readjustment in high-grade bond prices and a corresponding upward readjustment in interest rates.

Early in May even the new 3¼'s sold at a discount, and the average yield of Moody's Aaa corporate bonds rose to 3.44 percent.

It is heartening, and a tribute to the flexibility of the authorities that, when the results appeared excessive, they were quick to reverse their restrictive policies. The new 3¼'s closed last Friday at 196²²⁄₃₂ to yield 2.85 percent.

In the light of the record since 1951, I think it can be reasonably concluded that the abnormal inflationary pressures arising from the war and postwar periods are behind us. It is true that our people now have a greatly enlarged supply of money and other liquid assets. But it is also true that our population is 29 millions greater than in 1939, that our gross annul product in current prices is more than three and a half times as large, and in constant prices nearly twice as large.

If we are to avoid deflation and depression as well as inflation, our monetary and debt management policies must be geared to these new levels and to the strong rate of growth in our population and productivity.

With respect to debt management I think this calls for a policy of moderation and caution in the speed and extent of funding the short-term Federal debt into long-term securities.

Under present conditions a considerable part of the short-term public debt serves highly important needs that cannot be satisfied nearly as well, if at all, by long-term obligations. These short-term securities are owned mainly by banks, other financial institutions, and business corporations.

For the banks they offer a perfect medium for secondary reserves. They have an instant nationwide market and are free from serious price risks. If our commercial banks had possessed comparable amounts of short-term Treasury obligations during the late 1920's and early 1930's, thousands of bank failures would have been avoided: for many of these failures were not due to the poor quality of bank portfolios, but to the fact that banks in areas suffering an adverse regional balance of payments, such as the agricultural areas, could not sell their local loans and securities to other banks in regions that were gaining funds. With ample secondary reserves of short-term Treasury obligations, banks could readily meet such interregional drains if they should recur.

I recall how vigorously Governor Benjamin Strong of the Federal Reserve Bank of New York protested during the 1920's, on the basis of the needs of smooth-working bank machinery, against funding too much of the short-term Treasury debt into long-term securities.

To the extent that banks replaced their short-term Treasury holdings with long-term Treasury bonds, they would face sharper price risks. We had a good illustration of these risks in the first 5 months of 1953, when the average price of long-term 2½ percent Treasury bonds, the longest maturity of which was less than 20 years, dropped nearly 5½ points. At the end of 1953, the member banks as a whole possessed capital funds equal to only about 7 percent of their total assets, and to about 9.3 percent of their earnings assets, a margin that does not permit such risks for any large proportion of a bank's assets.

Alternatively, the banks could seek additional private debt, such as short and intermediate term business and consumer loans and longer-term mortgage loans and other securities. Commercial loans are properly regarded highly by banks. But despite their growth in the postwar period, the volume of commercial loans has not kept pace with the increase of the gross national product. In fact, even total bank loans, including real estate and consumer loans, constituted only about one-half the fraction of the gross national product in 1953 that they constituted in 1929.

Moreover, the small ratio of their capital funds to risk assets would restrain many banks from adding as much to their risk assets as they lost in short-term Treasury paper.

A large part of the short-term Treasury obligations held by nonbank investors is also employed for purposes that would not be well served by long-term obligations. Business corporations own some $20 billion of them as reserves for accruing tax liabilities and for prospective capital outlays. Nonbank financial corporations hold significant amounts of them as liquid reserves. We must remind ourselves that since the Banking Act of 1935, the commercial banks have been prohibited from paying interest on demand deposits, with the result, among others, that corporations with large temporary balances have been given a strong incentive to use them directly for short-term investments. If the supply of short-term Treasuries were reduced too sharply, business corporations would be forced either to hold larger bank balances or to seek short-term private obligations; that is, to engage in a quasi-banking business.

Further, what would be the source of the funds raised by the Treasury through sales of long-term securities to redeem short-term obligations held by commercial banks and business corporations? Conceivably, as a part of a vigorous counter-inflationary policy, and at sufficiently high interest rates, we could persuade individuals to convert a significant portion of their existing currency and demand deposits into such securities.

The funds would go to present holders of short-term Treasuries, who would retain much of them as liquid balances in lieu of their present reserves of short Treasury obligations.

Before doing this we would want to be sure that such strong deflationary action was called for. For individuals already own 50 percent more in Treasury securities than the entire net Federal debt outstanding at the end of 1939, $21 billion more than the entire amount of net long-term corporate debt then outstanding, and some $17 billion more than the sum of all farm, residential, and commercial mortgage debt and State and local government securities then outstanding. They hold their present amounts of currency and demand deposits in the face of a continuous offer by the Treasury to sell them United States savings bonds, redeemable on demand after a short period, and the continuous availability in the open market of Treasury obligations held by banks and others. The presumption is, therefore, that, all things considered, individuals think they need the present volume of their currency and demand deposits.

Over a period of years, however, the Treasury could doubtless sell them large amounts of long-term securities by absorbing a portion of their savings. These savings could be absorbed by selling the securities to individuals directly, and by selling them to the life insurance companies, savings banks, pension funds, and other intermediaries through which individuals invest much of their savings. And the Treasury could use the funds so obtained gradually to retire short-term obligations held by banks.

It should be noted, however, that the long-term securities sold in this fashion would take the place of much new real investment in private industry and in the mortgage market that these purchasers would otherwise be seeking to finance.

There might be times when the authorities believed that too much investment money was being made available for public utility, residential, commercial, and industrial construction, and State and local government capital outlays. At such times the authorities might reasonably wish to absorb some of these funds by selling long-term Treasury securities, but at other times they might well prefer to move only slowly and moderately in this direction.

In sum, under existing conditions, short-term Treasury obligations are, in a larger sense, a part of the effective money supply of the country. If the amount of them were very substantially reduced by being funded into long-term obligations, the demand for cash itself would be increased. If this demand were not met by an expansion of bank credit in excess of the amount required for other reasons, the effect would be deflationary; and, over a period, it would mean the absorption of savings that would otherwise be available for new real investment.

If, on the other hand, the Federal Reserve authorities succeeded in providing a substitute expansion of bank credit in excess of the amounts that would otherwise be required, we would be substituting, in substance, additional cash balances in the hands of the public, together with long-term Treasury obligations, for present holdings of short-term Treasury obligations—a result that is not usually contemplated by those who favor a rapid large-scale funding of the public debt.

These considerations, I think, dictate caution, moderation, and careful timing in the funding of the present short-term debt.

Finally, while it is reassuring that the Government has shown itself alert to the possibilities and problems of business recession, it is also important that the authorities set their sights high enough in prosperous times. With our growing population and output, we shall need a continuing growth in our supply of money and other liquid assets.

Mr. Chairman, I have a prepared statement, and with your permission, I would like to insert it in the record.

Chairman WOLCOTT. Without objection, it will be inserted at this point.

(The statement referred to follows:)

STATEMENT OF LAWRENCE H. SELTZER, PROFESSOR OF ECONOMICS AT WAYNE UNIVERSITY

I should like to begin by expressing my high admiration for the Economic Report of the President. Its analysis of the current condition and recent past of our economy is cogent, comprehensive, and extraordinarily lucid. And I particularly like its strong emphasis upon the need for maintaining an expanding economy.

Since I have been invited to address myself specifically to monetary policy, debt management, and interest rates, I shall use the few minutes at my disposal to discuss these mainly in relation to the requirements of an expanding economy. For the great danger at the end of any inflation period is the natural tendency of public officials and private citizens alike to be more fearful of the possibilities of further inflation than of the possibilities of deflation and the severe dislocations and unemployment that often accompany it. Historically, the longest and deepest declines in the price level have occurred after major wars, such as the 35-year decline in Great Britain after the Napoleonic Wars and the 30-year decline in the United States after the Civil War. Between 1920 and 1930, following World War I, our wholesale commodity price index fell 44 percent. This price decline was sharp in 1920–21, then mild until 1930. It was marked by nearly continuous difficulties in some of our agricultural areas. After 1922 and until 1930, however, it was accompanied by high prosperity in industry, interrupted by only two brief dips.

What is our price situation and outlook today?

If we judge by the most conclusive of all tests, the behavior of prices in free markets, the United States had grown up to its war-expanded supply of money and other liquid assets by the end of 1951. The broad index of wholesale prices has moved mainly, though gently, downward ever since, and the consumer price index has risen only slightly—less than 2 percent—with that rise largely accounted for by previously delayed advances in such regulated items as rent and public-utility rates. This stability in the general level of prices since 1951 occurred in the face of a huge volume of military expenditures superimposed upon record-high public and private outlays for new construction, plant equipment, and consumption. It occurred also despite an addition of $4.4 billions to the total of adjusted demand deposits and currency in 1952, and of half that amount in 1953, as well as additions during these years of $4.4 billion and $4.5 billion, respectively, to the total of adjusted time or savings deposits.

I think it is significant that the intensified credit restraints that were put into effect for precautionary purposes in the forepart of 1953 had to be reversed so quickly. As late as April 9, 1953, a counterinflationary objective was clearly implied in the Treasury's offering of a 3¼ percent 30-year bond. These bonds carried an interest rate higher than the then-prevailing average yield of Moody's Aaa corporate bonds—3.18 percent—though Treasury obligations commonly command a lower rate. Some allowance may be made for the somewhat shorter average final maturity of the corporate bonds—about 26½ years as against 30 years for the Treasury offering, and for the somewhat shorter average period to first call date—about 18½ years against 25 years. But the announcement of the 3¼ percent Treasury bond set off a general downward readjustment in high grade bond prices and a corresponding upward readjustment in interest rates. Early in May even the new 3¼s sold at a discount, and the average yield of Moody's Aaa corporate bonds rose to 3.44 percent. It is heartening, and a tribute to the flexibility of the authorities that, when the results appeared excessive, they were quick to reverse their restrictive policies. The new 3¼s closed last Friday at 106²²⁄₃₂, to yield 2.85 percent.

In the light of the record since 1951, I think it can be reasonably concluded that the abnormal inflationary pressures arising from the war and postwar periods are behind us. It is true that our people now have a greatly enlarged supply of money and other liquid assets. But it is also true that our population is 29 millions greater than in 1939 and that our gross annual product in current prices is more than 3½ times as large. If we are to avoid deflation and depression as well as inflation, our monetary and debt-management policies must be geared to these new levels and to the strong rate of growth in our population and productivity.

With respect to debt management I think this calls for a policy of moderation and caution in the speed and extent of funding the short-term Federal debt into long-term securities.

Under present conditions a considerable part of the short-term Treasury securities outstanding serves highly important needs that cannot be satisfied nearly as well, if at all, by long-term obligations. These short-term securities are owned mainly by banks, other financial institutions, and business corporations. For the banks they offer a perfect medium for secondary reserves. They have an instant nationwide market and are free from serious price risks. If our commercial banks had possessed comparable amounts of short-term Treasury obligations during the late 1920's and early 1930's, thousands of bank failures would have been avoided; for many of these failures were not due to the poor quality of bank portfolios, but to the fact that banks in areas suffering an adverse regional balance of payments, such as the agricultural areas, could not sell their local loans and securities to other banks in regions that were gaining funds. With ample secondary reserves of short term Treasury obligations, banks could readily meet such interregional drains if they should recur.

I recall how vigorously Governor Benjamin Strong of the Federal Reserve Bank of New York protested during the 1920's, on the basis of the needs of smooth-working banking machinery, against funding too much of the short-term Treasury debt into long-term securities.

To the extent that banks replaced their short-term Treasury holdings with long-term Treasury bonds, they would face sharper price risks. We had a good illustration of these risks in the first 5 months of 1953, when the average price of long-term 2½-percent Treasury bonds, the longest maturity of which was less than 20 years, dropped nearly 5½ points. At the end of 1953, the member banks as a whole possessed capital funds equal to only about 7 percent of their total assets, and to about 9.3 times their earning assets, a margin that does not permit such risks for any large proportion of a bank's assets.

Alternatively, the banks could seek additional private debt, such as short and intermediate term business and consumer loans and longer term mortgage loans and other securities. Commercial loans are properly regarded highly by banks. But despite their growth in the postwar period, the volume of commercial loans has not kept pace with the increase of the gross national product. In fact, even total bank loans, including real-estate loans and consumer loans, constituted only about one-half the fraction of the gross national product in 1953 that they constituted in 1929. Moreover, the small ratio of their capital funds to their total assets would restrain many banks from adding as much to their risk assets as they lost in short-term Treasury paper.

A large part of the short-term Treasury obligations held by nonbank investors is also employed for purposes that would not be well served by long-term obligations. Business corporations own some $20 billion of them as reserves for accruing tax liabilities and for prospective capital outlays. Nonbank financial corporations hold significant amounts of them as liquid reserves. We must remind ourselves that since the Banking Act of 1935, the commercial banks have been prohibited from paying interest on demand deposits, with the result, among others, that corporations with large temporary balances have been given a strong incentive to use them directly for short-term investments. If the supply of short-term Treasuries were reduced too sharply, business corporations would be forced either to hold larger bank balances or to seek short-term private obligations; that is, to engage in a quasi-banking business. Some of them already do the latter, buying such obligations as the notes of instalment paper companies, for example.

Further, what would be the source of the funds raised by the Treasury through sales of long-term securities to redeem short-term obligations held by commercial banks and business corporations? Conceivably, as a part of a vigorous counter-inflationary policy, and at sufficiently high interest rates, we could persuade individuals to convert a significant portion of their existing currency and demand deposits into such securities. The funds would go to present holders of short-term Treasuries, who would retain much of them as liquid balances in lieu of their present reserves of short Treasury obligations. Before doing this we would want to be sure that such strong deflationary action was called for. Individuals already own 50 percent more in Treasury securities than the entire net Federal debt outstanding at the end of 1939. $21 billion more than the entire amount of net long-term corporate debt outstanding in 1939, and some $17 billion more than the sum of all farm, residential, and commercial mortgage debt and States and local government securities then outstanding. They hold their present amounts of currency and demand deposits in the face of a continuous offer by the Treasury to sell them United States savings bonds, redeemable on demand after a short period, and the continuous availability in the open market of Treasury obligations held by banks and others. The presumption is, therefore, that, all things considered, individuals think they need the present volume of their currency and demand deposits.

Over a period of years, however, the Treasury could doubtless sell them large amounts of long-term securities by absorbing a portion of their savings. These savings could be absorbed by selling the securities to individuals directly, and by selling them to the life-insurance companies, savings banks, pension funds, and other intermediaries through which individuals invest much of their savings. And the Treasury could use the funds so obtained gradually to retire short-term obligations held by banks.

It should be noted, however, that the long-term securities sold in this fashion would take the place of much new real investment in private industry and in the mortgage market that these purchases would otherwise be seeking to finance. There might be times when the authorities believed that too much investment money was being made available for public utility, residential, commercial, and industrial construction, and State and local government capital outlays. At such times the authorities might reasonably wish to absorb some of these funds by selling long-term Treasury securities; but at other times they might well prefer to move only slowly and moderately in this direction.

In sum, under existing condition, short-term Treasury securities are, in a larger sense, a part of the effective money supply of the country. If the amount of them were very substantially reduced by being funded into long-term obligations, the demand for cash itself would be increased. If this demand were not met by an expansion of bank credit in excess of the amount required for other reasons, the effect would be deflationary; and, over a period, it would mean the absorption of savings that would otherwise be available for new real investment. If, on the other hand, the Federal Reserve authorities succeeded in providing a substitute expansion of bank credit in excess of the amounts that would be otherwise required, we would be substituting, in substance, additional cash balances in the hands of the public, together with long-term Treasury obligations, for present holdings of short-term Treasury obligations—a result that is not usually contemplated by those who favor a rapid large-scale funding of the public debt.

These considerations, I think, dictate caution, moderation, and careful timing in the funding of the present short-term debt.

Although I have tried to state forcefully some of the dangers of hasty and immoderate funding of the short-term public debt, I by no means intend to imply that the Treasury should make no increases in its medium and moderately long-term obligations. There is at nearly all times a large, though varying, demand for Treasury securities in a wide range of intermediate maturities such as the 7¾-year bond issue recently announced. For many investors these serve some of the purposes of shorter term paper and are often preferred because their yields are commonly higher. Further, there are recurring periods when longer Treasury securities in moderate amounts are welcomed by the market, sometimes because institutions want to upgrade the average quality of their long-term portfolios, sometimes because attractive long-term private investments are not forthcoming in adequate amounts. My remarks have been directed principally against the view that it would be a fine thing if most of our public debt could be funded in a short time into something like 30- or even 50-year maturities.

I might add that very long maturities seem objectionable to me because they are subject to wide fluctuations in market price in response to moderate changes in interest rates. I think it sounder for the country if the Treasury is paying at all times a rate of interest not far from the going market rate for each maturity, rather than a rate fixed for a long time to come by the special conditions of a particular year or two.

The President's recommendations that bear most directly upon monetary policy are those concerned with governmental aids to housing. I am heartily in favor of the tenor of these proposals. I particularly favor broadening the area of flexible determination of maximum loan-value ratios, terms to maturity, and interest rates on FHA-insured and VA-guaranteed loans. One of the important limitations of ordinary central banking action alone has been its greater power to restrict the volume of credit in good times than to promote an increased use of credit in bad times. Would-be borrowers can readily be choked off by restrictive credit policy in good times, but ordinary central banking actions to ease credit do not automatically revive them or spawn new ones in bad times. In the area of housing, in particular, down-payment terms, maximum loan-value ratios and maturities are as important as interest rates in influencing the volume of demand for credit; and appropriate administrative changes up or down in these requirements for FHA insurance and VA guaranty of mortgages may greatly speed responses on the part of both lenders and borrowers to changes in Federal Reserve credit policy.

Finally, while it is reassuring that the Government has shown itself alert to the possibilities and problems of business recession, it is also important that the authorities set their sights high enough in prosperous times. With our growing population and output, we shall need a continuing growth in our supply of money and other liquid assets.

Chairman WOLCOTT. Mr. Reierson, on the same question on monetary policy.

STATEMENT OF ROY L. REIERSON, VICE PRESIDENT AND ECONOMIST, BANKERS TRUST CO., NEW YORK CITY

Mr. REIERSON. Mr. Chairman and gentlemen of the committee, in preparation for this meeting, I formulated a statement on credit and debt-management problems, which, with your permission, Mr. Chairman, I should like to submit for the record.

This statement consists of four sections. The first section is a brief résumé of the factors that contributed to the tightening of credit and rising interest rates in the first part of 1953.

The second section describes the reason for the easing of the interest rate and credit restrictions, in the latter part of last year.

The third section considers some of the economic and financial effects of the credit policies followed in 1953.

The final section ventures some observations on credit policy and debt management in 1954.

With your permission, Mr. Chairman, I should like to present excerpts from the fourth section as my oral statement, and submit the reports in its entirety for the record.

Chairman WOLCOTT. That will be incorporated.

(The prepared statement of Mr. Reierson follows:)

CREDIT AND DEBT MANAGEMENT PROBLEMS—STATEMENT PREPARED FOR THE JOINT COMMITTEE ON THE ECONOMIC REPORT BY ROY L. REIERSON, VICE PRESIDENT, BANKERS TRUST CO., NEW YORK, FEBRUARY 16, 1954

An important problem for national economic policy is the appropriate use of measures of credit control and debt mangement in the period ahead. In 1953, both credit and debt management policies underwent significant changes. In the early part of the year, the monetary authorities followed a general policy of credit restraint which contributed to a sharp increase of interest rates. Subsequently, effective action was taken to ease credit, and interest rates declined rapidly. In developing a point of view for 1954, the events and experiences of last year merit careful consideration.

CREDIT RESTRAINT AND RISING INTEREST RATES

The rising trend of interest rates in the first 5 months of 1953 appears to have evolved out of a highly unusual combination of circumstances and events. The major factors at work were peak economic activity and a moderately restrictive credit policy combined with Treasury efforts to lengthen the maturity of the Government debt. However, the effects were much enhanced by growing uncertainty in the financial market regarding the outlook for interest rates.

Economic forces

The stage for credit tightening was set by the continued high and rising rate of economic activity in the early months of the year. Investment was of boom proportions. Business spending on plant and equipment and public works projects of State and local governments were at record levels, residential building was near its 1950 peak rate, and other construction set a new high mark. In addition to the large requirements for investment funds from these sources, the swift rise of consumer credit in that period was accompanied by huge sales finance company borrowings both from commercial banks and in the securities markets.

Although record savings were being accumulated, bond yields rose in response to the sustained demands for funds. Also, the seasonal decline in business requirements for bank credit was smaller than expected. Economic forces were thus operating in the direction of firmer interest rates.

Credit policy

The Federal Reserve, throughout this period, did not take positive action to tighten credit. The only exception was the January 1953 increase in the discount rate from 1¾ to 2 percent, which brought the rate in line with other short-term rates. However, since large amounts of gold were leaving the country in those months while the demands for bank loans remained high, a Federal Reserve policy of refraining from supplying funds contributed to the pressure upon the reserve position of the commercial banks. As a result, the member banks continued their large borrowings from the Federal Reserve banks, and credit remained tight.

With funds scarce and loan demands high, the leading commercial banks in April raised the prime lending rate from 3 to 3¼ percent. Shortly thereafter, the housing authorities took the long-delayed step of raising the rates on FHA and VA mortgages. This action was belated recognition of the change in the level of long-term interest rates and was designed to promote the flow of investment funds into guaranteed mortgages.

Treasury debt operations

In the same period, the Treasury entered the market for long-term funds. The expectation that some short-term debt would be refunded into longer maturities, and that new long-term Treasury bonds would be offered in 1953, had been hanging over the market at least since the beginning of the year, and probably contributed to the softer tendencies in the bond market in the early months of the year. Treasury officials appeared cognizant of the prevailing uncertainties; their decision to offer a new 3¼-percent long-term bond for cash subscription in April was preceded by a careful exploration of the prospective market. Furthermore, the new money offering was limited to the modest amount of $1 billion and the terms of the new issue appeared attractive. The announcement of the new issue was well received and the bonds went to a small premium in trading on a when-issued basis. However, the offering led to some downward adjustment in the market prices of outstanding long-term Government bonds.

The enthusiasm for the new issue was short-lived, and was followed by a further and substantial weakening of the bond market. Although the offering was heavily oversubscribed, it soon became evident that many subscriptions had been entered with the expectation of a free ride to quick profits by subscribers who were eager to liquidate at the first opportunity. Furthermore, the Treasury had offered to exchange nonmarketable F and G bonds maturing in 1953 for the new 3¼'s at par, and sales by some holders who had accepted this exchange offering added to the selling pressure. As a result, when the new bonds were issued in May, they were already selling at a discount, and this dealt quite a blow to market confidence.

Market psychology

While all these factors help explain the rise in interest rates and bond yields in the Spring, a crucial element in the development of the credit squeeze was probably in the realm of expectations. In the first place, there was the growing prospect of large Treasury borrowings. Secondly, and probably even more importantly, the market was apprehensive that credit and debt management policies would operate to bring about a progressively higher level of interest rates.

Budget outlook.—Around April, the Federal budget outlook began to deteriorate. The realization spread that Government receipts were not going to live up to expectations, and that expenditures could not be reduced as rapidly as some had anticipated. Consequently, it became evident that the deficit for the fiscal year 1953 would be significantly larger than estimated, and that the Treasury would be required to raise more new money than had been generally foreseen earlier in the year.

Increasing uncertainty.—All this made the financial community highly sensitive to any prospect of the Federal Reserve permitting credit to tighten and of the Treasury undertaking more aggressive funding operations. For many years, until late 1952, the Federal Reserve had followed the practice of providing direct support to the Treasury's financing activities. In April and May of 1953, however, statements by the monetary and fiscal authorities stressed the transition to a market for Government securities free of Federal Reserve intervention. The financial community generally recognized the basic soundness of this principle; indeed, it was aware that two Treasury refinancing operations had already been consummated without Federal Reserve support. Nevertheless, since economic forces were working in teh direction of higher interest rates, the emphasis of the authorities upon a free market at that time began to trouble the financial community, and growing apprehension over future credit conditions contributed importantly to the sustained upward pressure upon bond yields.

Anticipatory borrowing.—Furthermore, these conditions led to increased demands for funds. Many corporate managements, as well as some State and local authorities, apparently hastened to expedite their borrowings lest new financing become even more costly. Marginal borrowers, fearful that credit would become wholly unavailable, sought to anticipate their financing by entering the security markets or approaching their banks. Paradoxically, therefore, higher interest rates, through their influence upon market psychology, had at least temporarily a stimulating effect upon the volume of security financing in the aggregate. This spurt in new financing was a further cause of the rapid drop in bond prices.

POLICY SHIFT AND MONETARY EASE

The credit stringency reached its peak early in June 1953; the subsequent easing of credit and the decline of interest rates was almost as striking as the development of tight market conditions earlier in the year. The change in trend, reflected some backing away of economic activity from the peak of the boom, with an accompanying reduction in demands for funds. Probably the anticipation of lower requirements for investment funds also was a factor. In addition, however, action by the credit and fiscal authorities effectively contributed to easier credit and lower interest rates.

Measures of credit policy

Since about mid-1953, the Federal Reserve has been pursuing a relatively easy credit policy; indeed, in more recent months it seems to have followed an aggressive policy of easing the money market. It has made use of all three major instruments of credit control, namely open-market operations, reserve requirements and the discount rate.

Open-market operations.—Early in May, while the money market was becoming progressively tighter, the Federal Reserve began to ease the pressure on bank reserves through open-market purchases of Treasury bills. These purchases mitigated the credit stringency and contributed importantly to the reversal of the trend in bond and money markets at the start of June; over 9 weeks, they amounted to $1.2 billion.

In August, Treasury bill purchases were resumed to provide reserves in order to meet the expected seasonal increase in bank loans; spread over 8 weeks, they totaled almost $400 million. On a third occasion, beginning in November 1953, the Federal Reserve acquired nearly $1.1 billion of Treasury bills in order to ease the money market over the year-end stringency.

In all, from early May 1953 through the end of the year, the Federal Reserve added $2.6 billion to its holdings of Treasury bills. These included about $600 million acquired under repurchase agreements which were liquidated early in 1954.

Reserve requirements.—In June 1953, after interest rates had eased somewhat from their early June peaks, the Federal Reserve announced a $1.2 billion reduction in reserve requirements of member banks. The main reason for this step appears to have been to enable the banks to subscribe to the $6 billion issue of tax anticipation certificates issued in July; a collateral consideration was to ease the reserve position of the banks in anticipation of the normal seasonal loan expansion in the second half of the year.

Discount rate.—Finally, early in February 1954, the discount rate was reduced from 2 to 1¾ percent, thus restoring it to the level in effect before the increase in January 1953. For several months prior to this step, short-term open-market rates had been soft, and the rate on new Treasury bills had moved well below the discount rate. The reduction in the discount rate was a step toward narrowing this disparity.

Treasury debt management

Debt-management policies after mid-1953 were also reassuring to the credit markets. In June 1953, the Treasury announced that it would raise some $6 billion of new money through the issuance of tax-anticipation certificates and not through longer-term issues, as some had expected. This action, and the later refusal of the Congress to raise the statutory debt limit, helped remove the market's concern over the possibility of energetic Treasury action to fund the debt and undertake another offering of long-term securities.

Later in the year, the Treasury resumed working toward a lengthening of maturities, although cautiously. In the September refinancing, a choice was offered between a certificate and a 3½-year note. New money financing in November was through a medium-term obligation (less than 8 years to maturity) rather than a long-term security. Holders of obligations maturing in December were given an option to receive either a short-term security (about 1 year) or a medium-term bond in exchange.

This practice was continued in the $21 billion refinancing consummated early in 1954, which involved not only the refunding of near-term maturities but advance refunding of 1 issue maturing and 2 issues called for payment in June. Holders of the near-term maturities were given the option of receiving 1-year certificates or 7¾-year bonds in exchange, while holders of the June obligations were given the opportunity to exchange them for the new bonds.

It seems clear that the Treasury, in its financing operations since June 1953, has been careful not to reduce the flow of investment funds into such obligations as real-estate mortgages, corporate bonds and others. The medium-term offerings have not been attractive to savings institutions such as insurance companies, pension funds, and mutual savings banks. Rather, the Treasury has endeavored to lengthen the maturity distribution of the debt by offering securities of a maturity that would be attractive to commercial banks.

Easing of credit

It is evident that Federal Reserve and Treasury authorities took energetic and effective steps to ease credit and reassure the market for Government securities. These measures were initiated in May and June 1953 even before production and employment had reached their peaks. They contributed significantly to the profound change in the market climate.

Supply of bank reserves.—The Federal Reserve, through adding $2.6 billion to its holdings of Treasury bills between May 6 and December 31, 1953, and reducing member bank reserve requirements by $1.2 billion, increased available bank reserves by about $3.8 billion, or approximately 20 percent of the required reserves of all member banks at midyear. Of the additional reserves thus made available, about $500 million offset the outflow of gold and another $900 million offset the seasonal expansion of money in circulation in the latter part of the year. There are few, if any, previous instances on record where the monetary authorities have taken such energetic action to ease credit while economic indicators were so close to the alltime records.

Partly reflecting these conditions, the position of the member banks has eased considerably in recent months. Whereas in the first 4 months of 1953, member bank borrowings from the Federal Reserve averaged $1.3 billion, in the last 6 months of the year their borrowings averaged less than $500 million, and in the first 5 weeks of 1954 they averaged $117 million. Furthermore, as the result of the recent lowering of the discount rate, the cost to member banks which find it expedient to borrow has been reduced.

Bank loans.—Contributing to the easing of credit in recent months has been a tapering off in the demand for bank loans. The increase in bank loans to business in the latter part of 1953 was considerably below the normal seasonal expansion. This was due mainly to a shift from inventory accumulation to some liquidation and to the fact that a smaller proportion of the crops moved through normal trade channels. Also, demands for additional bank credit by sales finance companies and dealers, and by consumers directly, were materially less than in the earlier months. In the first few weeks of 1954, furthermore, bank loans declined much more rapidly than in any corresponding postwar period, mainly because of lower business borrowing. This development does not reflect any desire on the part of bankers to reduce their loans, but rather the smaller needs for credit on the part of business borrowers.

Bond yields and interest rates.—A further significant development of recent months has been the decline in the yields of Government securities, and of corporate and municipal bonds in general. The reduction in the yields on short- and medium-term Government securities has been particularly sharp. One effect of this development has been to widen the spread between the return available on loans and on short-term Government obligations, and this has doubtless contributed to the greater interest of bankers in lending activities. By last December, yields on bank-type Treasury obligations were from 60 to 90 basis points lower than in June 1953.

Yields

	June 1953	December 1953	Change
Government securities	*Percent*	*Percent*	*Percent*
Treasury bills (new issues)	2.23	1.63	−0.60
9–12 month issues	2.46	1.53	−.93
3–5 year maturities	2.92	2.20	−.72
Corporate bonds:			
Industrial	3.48	3.28	−.20
Railroad	3.73	3.52	−.21
Public utility	3.62	3.37	−.25
Municipal bonds (high-grade)	2.99	2.59	−.40

In addition to the firmer markets for outstanding public and private obligations, the tone of the new issues market has improved significantly from the second to the final quarter of 1953. Business corporations are able to raise long-term debt capital more expeditiously and more economically.

The guaranteed mortgage market has also improved considerably since midsummer. Institutional investors have been displaying greater interest in acquiring such mortgages, discounts have declined, and just a few weeks ago the Federal National Mortgage Association raised the price at which it is willing to sell these securities. The general expectation is that this trend will continue.

CREDIT POLICY AND ECONOMIC ACTIVITY

Evaluating the effects of credit policies in our complex economy inevitably involves matters of judgment, since relationships of cause and effect are neither simple nor clearly discernible. The foregoing review suggests that the broad pattern of credit conditions and interest rates in 1953 paralleled the shift in the economy from widespread business optimism and rising output in the early part of the year to increased caution and a gradual tapering off of the boom in the closing months. Credit and debt management policies accentuated the influence of the underlying economic forces, but a great many other factors also were at work upon the credit situation, business conditions, and economic trends.

Bank lending policies

The effects of credit policy on bank lending are difficult to trace in detail among the 14,000 commercial banks in the country. Doubtless some banks did not alter their lending policies significantly during 1953. By and large, however, there is little doubt that both the growing tightness of credit in the first several months of 1953, and the subsequent pronounced easing in the latter part of the year, influenced commercial bank lending in the aggregate.

Bank lending and credit restraint.—In the first half of 1953, coinciding largely with the period of tight credit, many commercial banks displayed increasing reluctance to expand their loan portfolios. Credit policy, by permitting growing pressure upon the banks' reserve positions and creating the need to take losses on Treasury securities sold to replenish reserves, doubtless contributed to this result. Independently of credit conditions, however, there were good reasons for applying greater caution to lending operations.

Both business activity and bank loans at the beginning of 1953 were at record levels, and this made many bankers inclined to review their lending policies more carefully. Furthermore, business inventories, financed in part through bank credit, were rising at an unusually rapid pace despite the capacity of industry to meet all prospective demands. Also, consumer credit, following the termination of Regulation W in May 1952, had been expanding at unprecedented speed, and evidence began to accumulate that some lenders were relaxing their credit standards and lending terms.

All these considerations gradually led many commercial banks to adopt a more cautious and critical approach to the sustained high and rising demands for bank credit. In some cases, this reluctance to expand loans took the form of less aggressive efforts to cultivate prospective borrowers; old customers were probably encouraged to moderate or postpone their borrowings where feasible. Although there are few data to support this conclusion, it appears on balance that the effects of this more temperate approach to new loan demands were less important in the case of borrowings by established customers for productive purposes than in the case of credit demands to finance the acquisition of properties or securities. It also appears that the net effect of this greater caution was to restrain new borrowings rather than to set in motion any liquidation of outstanding loans or any widespread curtailment in lines of credit.

The effects of credit ease.—Credit policy in the latter part of 1953 helped create an environment favorable to the easier availability of bank credit. The reserve position of the banking system eased, and member bank borrowings have recently dropped to nominal proportions. Open-market interest rates have been reduced substantially, and the widening differential between rates on short-term Treasury obligations and on bank loans has made bankers increasingly interested in maintaining their loan portfolios. Of equal importance, bankers no longer fear a recurrence of the tight reserve position and money squeeze they faced last year; they assume that the authorities will continue to keep the reserve position fairly easy.

The reduction in bank loans to business in recent weeks, as already noted, has resulted from the lower credit needs of business concerns and not from action by the commercial banks. Indeed, for some months quite a number of bankers have been growingly concerned about their ability to maintain the volume of their loans; with bank reserve positions eased and open-market yields down, they are devoting increased efforts to their lending operations.

Implications for business conditions.—Although it is difficult to prove, it seems fair to conclude that the tightening of credit in the early months of 1953, and the generally dampened enthusiasm of bankers for further rapid loan expansion, contributed in some measure to the tapering off in the rate of business inventory accumulation that became evident about midyear. If so, this was probably a wholesome development.

Business inventories were expanding at the annual rate of about $3 billion in the first quarter of 1953 and close to $9 billion in the second quarter, a rate of more than 10 percent a year. Short of another war scare resembling the Korean War boom, or of a speculative hoarding spree, there is little doubt that this pace of inventory accumulation could not have been sustained for any protracted period without incurring the risk of rapid and extended liquidation. As it developed, inventory accumulation dropped to an annual rate of $4½ billion in the third quarter of 1953 and evaporated thereafter. In retrospect, it is apparent that the accelerated pace of inventory expansion in the first half of 1953 was a prime mover in boosting industrial production to its new peaks and that the original cessation of inventory buildup, and the shift to some liquidation, largely accounts for the reduced levels of production in recent months.

Unlike some earlier instances in our economic history, the shift in business inventory policy was not induced by pressure from commercial banks to liquidate loans as the result of a credit squeeze by the Federal Reserve. Rather, it was prompted by a reappraisal of economic prospects and the sales outlook on the part of businessmen.

Easy credit, of itself, is not likely to halt the trend toward lower business inventories, but the steps taken by the authorities to ease credit have helped forestall any tendency on the part of bankers to call their loans. In turn, this has facilitated an orderly reduction of inventories; there has been little, if any, evidence of forced liquidations at sacrifice prices. A supporting factor is the absence of large-scale inventory speculation financed by short-term credit, as occurred with such unfortunate results after World War I. The contribution of credit policy has been to help create an environment where bank credit is readily available to finance the rebuilding of inventories whenever businessmen believe that current inventory levels and sales prospects justify adding to the goods in stock.

Although the volume of installment credit outstanding increased every month in 1953, the rate of growth slackened during the course of the year. The rising level of interest rates in early 1953 was probably not a major retardent; it is generally agreed that the use of consumer credit is not inhibited by a moderately higher cost of borrowing. However, it is evident that some commercial banks, in the early part of 1953, adopted somewhat more careful policies in promoting installment financing, which slowed down the rate of bank loan expansion in this field. In addition, some banks, while not canceling outstanding lines of credit to sales finance companies, became less eager to grant further increases in such lines. In this environment, the relaxation of lending terms that had followed the expiration of regulation W came to an end, and in some cases terms were stiffened or higher credit standards were applied.

It must be kept in mind that in the second half of 1953, the booming market especially for automobiles began to subside, and that on balance, this may have been a more important influence than credit conditions in slowing down the rate of expansion of consumer credit. Whatever the reason, the development was probably favorable to long-term economic stability.

Bond markets and investment activity

The level of investment in business plant and equipment, State and local public works, and residential and commercial construction does not appear to have been significantly affected by the rapid shift in bond market conditions and interest rates in the course of 1953. Most of the repercussions of these developments were confined to the financial markets, where they had some temporary effects upon the terms at which borrowers of investment capital raised the funds needed to finance their activities.

Plant and equipment spending.—The volume of business spending on plant and equipment set a new peak in 1953. Some corporate borrowers in the spring of 1953 raised funds at less favorable terms than they had expected, and there were a few instances where borrowers withdrew from the market altogether to await better conditions.

In view of the large volume of internal financing by business, it is doubtful whether the rise in interest rates in the spring of 1953 had any long-range effects upon business spending in the aggregate. In fact, the amount of plant and equipment spending in last quarter of 1953, about 6 months after the credit squeeze, set a new all-time record. Surveys of spending intentions for the first quarter of 1954 indicate that outlays will be perhaps 1 percent below the preceding quarter, but above the corresponding quarter of the previous year and slightly above the average rate for 1953 as a whole.

State and local spending.—New borrowings by State and local authorities were at a new record in 1953, despite the fairly sharp rise in yields in the spring months. Expenditures on schools, hospitals, roads, turnpikes, and many other public facilities continue upward year after year. They set a new high mark in 1953 and it appears they will be even larger in 1954. The volume of such expenditures reflects the decisions of the voters, legislative action and the progress of construction work; credit conditions may have affected the timing of some new security offerings, but probably did not reduce the volume of public projects as a whole. Since midyear, conditions for State and municipal borrowings have become progressively more favorable, despite the reduction in individual income-tax rates on January 1, which generally has an important bearing upon the prices and yields of tax-exempt securities.

New housing.—In the period of rising interest rates, guaranteed mortgages are reported to have lost favor with some investors. Increased difficulty in getting financing commitments may have contributed to the decline in housing starts around the middle of 1953. Even in the low third quarter of the year, however, housing starts are estimated as slightly under a 1 million annual rate, certainly not an alarmingly low level. And by the fourth quarter, the annual rate had bounced back to 1,062,000.

Money supply and the economy

Experience in 1953 seems on balance to be reassuring for the continued use of flexible credit policy. Interest rates rose rapidly and bond prices declined sharply in the early part of the year. But these developments did not impair the solvency of financial institutions nor contribute to any feeling of uncertainty on the part of depositors or policyholders. Nor does it appear, in retrospect, that the policy of credit restraint had any substantial adverse effects upon the economy. There is, however, the question of the effect which credit policy may have exercised upon the economy by way of its impact upon the money supply.

For more than a hundred years, economists have been arguing about the relationship between the money supply on the one hand, and production or prices on the other. The statistical record shows that some general relationship exists over the long run, but that it is neither exact nor invariable, particularly over brief periods. Economic effects of a chance in the money supply depend not only upon the size of the money supply as a whole, but also upon the rate at which it is used; over a short space of time, at least, changes in the rate of turnover may be even more important than fluctuations in the toal amount of the money supply.

The available statistics show that in the first 4 months of 1953, the behavior of the money supply did not differ significantly from the corresponding months in the 2 preceding years. In 1953, this covered the period during most of which the outflow of gold was especially rapid and when the Federal Reserve authorities were taking no action to offset the tightening of credit in the market. Despite the operation of these forces, the decrease in the money supply in early 1953 seems to have been largely a normal seasonal development; it was not significantly greater than in the 2 previous years, as shown below:

Change in money supply

[Demand deposits adjusted plus currency outside banks]

First 4 months	Amount (in billions)	Percent
1951	−$3.6	−3.0
1952	−3.5	−2.9
1953	−4.0	−3.1

Interestingly enough, although the Federal Reserve began to provide reserves to the market place in May, the money supply in 1953 continued to decline through the month of June, whereas in the corresponding period of the 2 preceding years, it had expanded. Furthermore, in the second half of 1953, the seasonal rise in the money supply lagged behind previous years despite the pronounced and energetic easing of credit by the Federal Reserve; the smaller growth in the money supply in that period reflected, on balance, the slowing down in business demands for bank credit.

Debt management

An important consideration in the development of credit policy in 1953 was the Treasury's problem of lengthening the maturity of the public debt. In the past year, as has been frequently pointed out, the Treasury had to approach the market on nine separate occasions either to borrow new money or to refund maturing obligations other than weekly Treasury bills. Because of the constant shortening of the outstanding debt through the passage of time, efforts to extend the maturity distribution of the debt is a herculean task at best, and the problem at present is complicated by the current large demands for investment funds by other borrowers.

Despite efforts to extend maturities in 1953, both the amount and the proportion of short-term debt was higher at the close of last year than at its start. Furthermore, although a substantial reduction of near-term maturities was achieved in the latest refinancing operation, the amount and percentage of the marketable debt maturing within 1 year has increased since the end of 1952, while the reduction in maturities within 5 years has been slight.

CREDIT POLICY AND DEBT MANAGEMENT IN 1954

In our dynamic economy, tools of economic policy must be at hand which can be used readily and flexibly, which act upon business conditions without undue delay, and which are suitable to our free-enterprise system. Credit policy, together with debt management, possesses these virtues to a greater degree than any other policy instrument available. An invaluable advantage is that if credit and debt management policies are pursued with caution, errors of judgment can be corrected with less serious consequence to the economy than in the case of other means of economic control. This was borne out once again in 1953, and the experience gained last year should be highly valuable in shaping policy for the year ahead.

The lesson of 1953

The record of credit policy and debt management in 1953 shows that the monetary and fiscal authorities were intent upon following a flexible course of action; they managed to shift their policies and objectives while the economy was still operating at an all-time high. In the future, the authorities may not always be so fortunate in their timing, but there is little doubt of their continuing desire for flexibility.

Treasury marketable debt

[Amounts in billions]

	Amounts		Percent of marketable debt	
	Maturing within 1 year	Maturing within 5 years	Maturing within 1 year	Maturing within 5 years
Dec. 31, 1952	$56.2	$93.9	38 3	63.2
Dec. 31, 1953	73.2	103 7	47.3	67.1
Feb. 15, 1954	63.3	92.4	41.0	60 0

Results of credit policy.—Credit policy in the early part of 1953 acted to slow down the rate of credit expansion, and this doubtless helped curb the boom then in process. While basic economic trends were probably the most important forces moderating the demands for business financing in 1953, conditions in the credit markets probably contributed to checking the wave of inventory accumulation and helped retard somewhat the rapid growth of consumer credit. Both these developments appear to have enhanced the prospects for greater long-range economic stability.

Although the policies of credit restraint followed in the early part of 1953 were accompanied by substantial price declines in the markets for fixed-income securities, these developments did not lead to a credit crisis, a spiral of credit liquidation, uncertainty regarding the solvency of financial institutions, or a sharp contraction in the economy. Such important pillars of economic activity as business spending on plant and equipment, State and local construction, and commercial building do not appear to have felt any significant impact from the temporary tightening of credit; at least their levels have remained very high to the present time. Residential building, which showed some effect around mid-1953, recovered rapidly and demonstrated renewed vigor toward the close of the year.

In recent months, both economic forces and operations by the credit authorities have been in the direction of easier credit conditions. Short-term interest rates have dropped sharply, bond yields have declined significantly, investment funds are readily available in the markets and from institutional savers, and the commercial banks are evidencing increased eagerness for loans.

Flexible credit policy revived.—Credit policy in 1953 has at times appeared vulnerable to the criticism of having contributed to undesirable gyrations of interest rates, reflected in the credit markets by an unnecessary degree of stringency which was rapidly followed by extreme ease. However, it should be taken into account that the credit authorities for many years have not been in a position to use their tools of general credit controls; in a sense, these instruments may have become rusy, and the authorities may need some time to regain skill and adeptness in their use.

Also, the financial markets, for a corresponding number of years, have been sheltered against the use of flexible credit policy, so that the first major experience with a revived restrictive credit policy may have led to unduly gloomy expectations. As the authorities and the markets gain broader experience in the use and the results of flexible credit policy, we may hope for an improved mutual understanding of the problems involved, and perhaps less volatile changes in conditions in the credit markets.

Funding the debt.—In appraising credit policy in 1953, an added factor to be considered is that for the first time, the Treasury made some significant efforts to moderate the rising trend in its short-term marketable debt outstanding and achieve some lengthening of maturities. As in the field of credit policy, however, action here, too, was cautious and flexible.

In April 1953, a relatively small cash offering was made of a 30-year 3¼-percent bond designed for purchase by long-term investors such as the savings institutions. Coming as it did when conditions in the credit markets were growing increasingly tight, however, the operation contributed to declines in Government bond prices and also in the corporate bond market, although the large volume of new corporate and municipal issues in the second quarter of the year was probably an equally important factor.

After April, Treasury efforts to extend the maturity of the debt were limited to exchange offers under which holders of maturing issues were given the opportunity to receive, in exchange, either medium-term Treasury bonds on short-term issues, at their option. The bonds were not designed to be attractive to savings institutions but found a ready market with the commercial banks. Thus, after the April bond financing, the program of lengthening the debt was so constructed as not to compete with the flow of investment funds into real-estate mortgages, corporate bonds, and other private outlets. This change in the Treasury's financing practice paralleled that in the field of credit management and indicated that the fiscal authorities also were sensitive to general economic conditions and prospects.

Appraisal.—Despite the unusual fluctuations in bond prices and interest rates in 1953, credit and debt-management policies have worked out in relatively satisfactory fashion. The reasons for this fortunate experience appear to be twofold. In the first place, the actions of the credit and fiscal authorities moved in the same general direction as the economic forces working in the market place, helping to tighten credit in the first part of the year and making for easier credit thereafter. In the second place, the authorities have displayed alacrity in adjusting their activities to a changing economic environment. As a result, credit and debt-management policies appear to have helped exercise a stabilizing effect upon the economy, both in tempering the extremes of the boom and creating conditions conductive to an easy tapering off from the peak.

Current problems of credit policy

In a period of generally lower business, such as we have experienced in recent months, the credit authorities are faced with the problem of maintaining conditions favorable to borrowing and spending without at the same time creating other problems that might be equally dangerous or undesirable, such as providing a stimulus to inflationary or speculative expansion. In shaping their policies, therefore, the authorities need to take into account not only the condition of bank reserves and other statistical factors, but also such imponderables as the expectations of business, the financial community, and the general public.

Credit and business prospects.—Considering the relatively mild character of the decline in total economic activity to date, the prevailing ease in credit markets, and the absence of any pressure toward credit liquidation, the policies pursued by the authorities in recent months appear adequate in principle. So far, the inventory correction that seems to be the outstanding contributor to the recent decline in production has been orderly; it has not been characterized by forced sales of merchandise at sacrifice prices under the pressure of credit contraction.

Until signs of a definite turnabout in business activity are at hand, a combination of economic forces and of actions by the authorities may be expected to maintain conditions in the credit and investment markets such that funds will continue to be available at moderate interest cost. This is probably the major contribution that general credit policy can make toward holding up aggregate economic activity. When the forces of expansion reassert themselves in the economy, there is little doubt that adequate funds will be available to finance an upturn in the general levels of business activity.

Extent of credit ease.—Indeed, some questions have been raised suggesting that the action to ease credit may have been excessively vigorous in view of the fact that our economy is still operating at high levels of activity and credit is already abundant. Some observers feel that the authorities have been too hasty in using ammunition that might have better been held in reserve in case business should worsen. It is pointed out that short-term interest rates, in particular, have already declined to such low levels that little room is left for further stimulation to business by way of additional reductions; instead of simply prompting a resumption of economic expansion, the prevailing low levels of interest rates may pose the danger of encouraging speculation. Finally, there is some fear that the lower bond yields may force savings institutions once again to reduce the rates they pay.

Credit policy cannot be developed in a vacuum; all these considerations, and many more, need to be considered in formulating plans and action. The authorities, in their continuing appraisal of credit policy, are doubtless fully cognizant of the dangers inherent in an excessively easy credit market. Possessing an instrument of great flexibility, they can take corrective action as soon as the need is apparent.

Problems of debt management

Perhaps the most important question for 1954 in the field of debt management relates to the vigor with which the Treasury should pursue its efforts to lengthen the maturity of the marketable debt. The Treasury gives every indication of desiring to continue its program of extending maturities, reducing the frequency of its financing operations, and simplifying the debt structure. It seems likely that some progress can be made toward these objectives in 1954 without adverse effects upon the state of business.

New long-term borrowing.—The Treasury has already stated that consideration is being given to offering a long-term marketable bond for cash at a later date. The debt limit precludes such an offering until the maturity of $5.9 billion of tax anticipation certificates in March. Whether the Treasury will decide to offer long-term bonds shortly thereafter, or later in the year, will depend upon the conditions in the investment market, the demands for investment funds, the interest displayed in a long-term Government bond by prospective purchasers, and upon the trends and prospects in the economy. Judging by the record to date, the Treasury is not likely to force the market by pressing for too large an offering too soon, and thereby to run the risk of reducing the amount of funds available for home building, construction, business plant programs, and similar purposes. Since investment requirements on the part of homeowners, business corporations and others are still large in the aggregate, one may reasonably assume that the Treasury will be able to make only relatively modest progress in lengthening the debt through the sales of long-term bonds in 1954.

Exchange offerings.—In refinancing its maturing obligations, the Treasury in recent months has successfully employed the practice of lengthening maturities by giving holders of maturing obligations the opportunity to receive medium-term bonds in exchange. Such an operation involves little or no risk to the Treasury so long as the holders have the option of taking a short-term issue in exchange, nor does it jeopardize the economy, since it does not sluice funds out of other investment channels. The success of such an operation depends upon the willingness of the commercial banks to increase the maturity of their holdings of Government obligations.

The strength in the bond market and the prospect of lower interest rates have contributed to the success of these refinancing activities in recent months. The portfolio holdings of the commercial banks, even after the refunding operation just consummated, are still relatively short; perhaps as musch as 40 percent of their holdings mature within 1 year. Furthermore, these portfolios are growing shorter in term with each passing month. Consequently, further Treasury exchange offers will probably continue to be well received by the commercial banks.

Need for short-term securities.—In considering the problem of debt funding. the large requirements of our economy for liquid assets need to be kept in mind. Commercial banks hold about $63 billion of Government securities, and since their deposit liabilities total about $173 billion, their requirements for short-term obligations as secondary reserves are large. Business corporations need liquid assets as reserves against taxes and other liabilities; currently they hold about $20 billion of Government securities, mostly short term. In addition, the Federal Reserve banks, which at present hold about $16 billion in Government securities maturing within 1 year, require such obligations in large volume for purposes of open-market operations.

Against these and other requirements for short-term Government securities, the Treasury now has outstanding about $63 billion of marketable obligations maturing within 1 year. This brief review suggests that if the Treasury's refunding operations succeed in offsetting the shortening of the debt caused by the passage of time, additional efforts to reduce the amount of short-term debt outstanding need be neither unduly zealous nor excessively ambitious.

CONCLUSIONS

In a vigorous economy in which freemen still enjoy the right of free choice, some fluctuations in the level of business activity are unavoidable. National economic policy cannot wisely attempt to iron out movements in the production index, or to keep the economy continuously on the rise, or to remove all uncertainty from the market place. But national policy can and should endeavor to moderate business fluctuations by restraining booms and by shifting policies promptly when the need for restraint has passed. Since we live in a credit economy and most economic activity rests on credit, it follows that credit and debt mangament policies are indispensable tools in guiding the Nation's economy.

Economic policy in general is more of an art than a science, and nowhere is this more true than in the execution of a flexible credit and debt management policy. The monetary and fiscal authorities operate in highly sensitive markets, where opinions and expectations are subject to rapid change. If credit and debt management policies are to make their greatest possible contribution to economic stability and long-term growth, the basic principles underlying their use must be clearly stated to the financial community and must be better understood in the market place. Perhaps a main task facing both the financial community and the monetary and fiscal authorities is to work together toward a broader appreciation of the true meaning of flexibility in credit control.

Chairman WOLCOTT. I might state at this point that all the statements of the panelists will be put into the record, with their permission, in their entirety, and you shall have permission to revise and extend your remarks in any manner that you see fit on the subject after the meeting is over.

Mr. REIERSON. In our dynamic economy, tools of economic policy must be at hand which can be used readily and flexibly, which act upon business conditions without undue delay, and which are suited to our free-enterprise system. Credit policy, together with debt management, possesses these virtues to a greater degree than any other policy

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instrument available. An invaluable advantage is that if credit and debt management policies are pursued with caution, errors of judgment can be corrected with less serious consequence to the economy than in the case of other means of economic control. This was borne out once again in 1953, and the experience gained last year should be highly valuable in shaping policy for the year ahead.

The record of credit policy and debt management in 1953 shows that the monetary and fiscal authorities were intent upon following a flexible course of action; they managed to shift their policies and objectives while the economy was still operating at an all-time high. In the future, the authorities may not always be so fortunate in their timing, but there is little doubt of their continuing desire for flexibility.

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Although the policies of credit restraint followed in the early part of 1953 were accompanied by substantial price declines in the markets for fixed-income securities, these developments did not lead to a credit crisis, a spiral of credit liquidation, uncertainty regarding the solvency of financial institutions, or a sharp contraction in the economy. Such important pillars of economy activity as business spend ing on plant and equipment, State and local construction, and commercial building do not appear to have felt any significant impact from the temporary tightening of credit; at least their levels have remained very high to the present time. Residential building, which showed some effect around mid-1953, recovered rapidly and demonstrated renewed vigor toward the close of the year.

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In appraising credit policy in 1953, an added factor to be considered is that for the first time, the Treasury made some significant efforts to moderate the rising trend in its short-term marketable debt outstanding and achieve some lengthening of maturities. As in the field of credit policy, however, action here, too, was cautious and flexible.

In April 1953, a relatively small cash offering was made of a 30-year $3\frac{1}{4}$ percent bond designed for purchase by long-term investors such as the savings institutions.

After April, Treasury efforts to extend the maturity of the debt were limited to exchange offers under which holders of maturing issues were given the opportunity to receive, in exchange, either medium-term Treasury bonds or short-term issues, at their option. The bonds were not designed to be attractive to savings institutions but found a ready market with the commercial banks. Thus after the April bond financing, the program of lengthening the debt was so constructed as not to compete with the flow of investment funds into real estate mortgages, corporate bonds and other private outlets. This change in the Treasury's financing practice paralled that in the field of credit management and indicated that the fiscal authorities also were sensitive to general economic conditions and prospects.

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In a vigorous economy in which freemen still enjoy the right of free choice, some fluctuations in the level of business activity are unavoidable. National economic policy cannot wisely attempt to iron out all movements in the production index, or to keep the economy continuously on the rise, or to remove all uncertainty from the market place. But national policy can and should endeavor to moderate business fluctuations by restraining booms and by shifting policies promptly when the need for restraint has passed. Since we live in a credit economy and most economic activity rests on credit, it follows that credit and debt-management policies are indispensable tools in guiding the Nation's economy.

Chairman WOLCOTT. Thank you, Mr. Reierson.

May I ask the panel—I presume Mr. Reierson will want to answer it—whether he thinks that the tools we have now constitute a program which is flexible enough to do everything we shall have to do in the foreseeable future in adjusting of the volume and velocity of credit to meet the changes in the economy.

Mr. REIERSON. Mr. Chairman, in my judgment, the tools we have in the areas of general credit policy and debt-management policy are adequate. The question as to what governmental policy should be in the broader credit areas, as for an example residential housing, is another type of problem. But in the area with which I was concerned, general credit policy and debt management, I believe the tools are adequate.

Mr. SMITH. Do you mean to say that they are adequate to get an economy that is stalled moving and stop an economy that is already moving at high speed?

Mr. REIERSON. No, I do not mean to say that the determination of the aggregate volume of economic activity is a function entirely of general credit policy and debt management policy. All I am suggesting is that the tools that we have are such as to enable credit policy and debt management policy to make some contribution to the stabilization of economic activity.

Mr. SMITH. I see.

Mr. REIERSON. And I agree with your point of view that the problem is much more complex than simply credit policy and debt management policy.

Chairman WOLCOTT. Are there questions of the panel?

Mr. SELTZER. I think the President's recommendation for flexible administrative adjustments in the terms of VA loans and FHA-insured loans would add to the tools available to the authorities for flexible stimulus or restraint of credit and the use of credit.

Chairman WOLCOTT. Mr. Seltzer, may I suggest in that particular that you take a more than passing look at the new housing bill that has been introduced?

Mr. SELTZER. A more what?

Chairman WOLCOTT. A more than passing look at it; especially with respect to the provisions for Fanny May, secondary market. Is that what you have in mind?

Mr. SELZER. Yes, among other things I think that the provisions for a secondary market for FHA-insured mortgages and VA-guaranteed mortgages would be helpful.

Mr. SMITH. Mr. Chairman, may I ask the panel a question, sir?

Chairman WOLCOTT. Yes.

Mr. SMITH. What disturbs me is how we are going to sustain the tremendous industrial capacity that we have built up over the past decade or so, largely stimulated by war. Industry has been moving along very well because it has not only had a great customer in the United States Government, but it has had a pent-up demand, a lush demand, I like to call it, from civilians that was built up during World War II and subsequently built up a little more in the Korean period. It seems to me that the time has come when industry has to face the cold fact that it must reach down and touch somehow the demand of 40 percent of our families in this country who do not have incomes in excess of $3,000.

Now, to sustain itself, it can no longer depend upon the lush demand that it has had at high-price levels. I would like to ask the gentlemen here how their credit and monetary policies will take care of that trouble.

Chairman WOLCOTT. Would a member of the panel like to take that on?

Mr. SELTZER. I think that the expansion of our industrial plant capacity is going to continue. The expansion of urban and State improvements in the public services requiring the extension of water mains, sewage facilities, schools, and the like, these are going to continue, and heavy capital investment itself provides an expansion in consumption because the bulk of capital expenditure goes to wages, which stimulates consumption expansion promptly. And I see no near-term ceiling on the growth in the industrial equipment and the governmental equipment of the country.

Mr. SMITH. I would agree, Mr. Seltzer, that there is some hope in what local governments might have in the way of a backlog. But the folks who reason the way you do seem to assume that there will be a smooth transition, and that the fellows making automobiles in Detroit, for example, will very easily get jobs in laying water mains and that sort of thing, and that those jobs will be exactly where those people are. I cannot quite see that.

You have not answered how monetary and credit policies would take care of my problem.

Mr. SELTZER. I think that if we have a vigorous promotionary credit policy when that is needed, we can do a great deal to continue our industrial rate of growth. I think this country needs——

Representative PATMAN. Are you saying, Dr. Seltzer, that in the expansion for the production of goods, that will cause a demand for savings, and people will have an opportunity to invest their money and receive dividends from it, and that will help out in the growth of the country?

Mr. SELTZER. Yes; it will do both. It will not only give an outlet for savings, but will produce the savings themselves by producing the income.

Representative PATMAN. I want you to take page 217 of the report, if you will, and analyze and evaluate that for me. It disturbs me greatly.

Take, for instance, the uses for plant and equipment outlays over the period of time from 1946 to 1953, inclusive. Last year, 1953, $24 billion was the amount used and if you will notice the concerns using this money received $22 billion of it, from retained profits, depletion allowances, and depreciation allowances. That only lacks $2 billion of the whole amount. If you notice, too, another disturbing figure there, that internal sources from 1952 to 1953, increased from $19.1 billion to $22 billion. That is almost $3 billion, lacking one-tenth. That indicates to me, and I would like for you to comment on it, if you will, that more and more these concerns are depending less and less upon the saver or the investor, but are getting their own funds from retained earnings, depletion allowances, and depreciation allowances.

Then you notice further down there, on the external funds, where that change in bank loans and mortgage loans on the same page, you will notice that they are depending less and less on the banks for their operating capital. Whereas they used $5.2 billion in 1951 and $3.2 billion in 1952, they only used $1 billion in 1953. I wish you would evaluate that table for me. Considering the thought I have that in a short while the industrial and manufacturing concerns will not depend upon outside capital at all; they will not even depend upon banks for their money to currently operate.

How would you answer that, please?

Mr. SELTZER. I would say that the biggest capital-using industries are not manufacturing industries. They are public utilities, and I see a great growth in prospect for the electric-utility industry, for example.

Representative PATMAN. I know. Let us stay with this page, if you do not mind. Just evaluate the question that I have asked there, if you please. Do you not see a trend there in the direction of depending less and less on the saver or the investor for capital funds? Do you not see a trend to depend on banks less and less from current operating capital?

Mr. SELTZER. Yes.

Representative PATMAN. Well, where will that lead us to? Will it not lead us more and more to a speculative market entirely? If people cannot invest in actual stocks and bonds that will enable them to get dividends and interest, they will go into the market, and it becomes more speculative, does it not, for the savers?

Mr. SELTZER. My feeling is that the savers put a very large fraction of their savings into institutions, and these intermediate financial institutions are heavy purchasers of State and local government bonds which are being issued in increasing amounts to finance public improvements of various sorts. They are heavy investors in public utility bonds. They are heavy investors also in housing mortgages. Now, we can use a terrific amount of savings for many years to come just in financing housing.

Representative PATMAN. I know, Doctor. Will you just confine your answer to that one point please, and answer the fear that I have, that we are going in the wrong direction somewhere, that this table clearly indicates that we are going in a direction where the savers in the future will be dependent upon the speculative market more than upon the investment market?

Mr. SELTZER. I do not believe——

Senator FLANDERS. May I interrupt for a moment to add some further questions to your question?

Representative PATMAN. Certainly, sir, as far as I am concerned.

Senator FLANDERS. Looking at this table on page 217, it would seem that so far as the sources are concerned, the depreciation allowances have to be considered as proper. In other words, equipment, and so forth, have worn out, and require new investment. The use of depreciation allowances for capital is regular.

Now, I do not quite understand how the depreciation allowances come into new investment, because they are simple replacements. But certainly the expenditure of depreciation allowances in capital equipment is beyond suspicion.

I think if Mr. Patman might raise questions as to the retained profits and depletion allowances, the retained profit method of investment, perhaps—and I would like the opinion of you gentlemen on it—has some reference to the fact that our taxation system makes it very difficult and very unrewarding for the individual investor of means to invest his money. It is more profitable for him and for his company, the companies in which he holds stock, to invest money. To do it personally is a very unrewarding process.

After the double taxation on his company has taken place and he gets diminished returns, then he invests in a new undertaking, and if he is in a high bracket, he gets diminished returns on that, further diminished by the double taxation on his new enterprise. It leaves him nothing, practically speaking, if he is in the upper brackets.

So that is a strong force leading toward the company expansion through investment of its own profits.

We have made it unprofitable for the individual to invest directly.

I would like to ask these gentlemen if that is a valid assumption, and if it is not an effective cause of this tendency toward the reinvestments by operating companies rather than the flow of private funds into investment.

Mr. McKinley. May I offer something there?

It seems to me that in Congressman Patman's question, there was the implication or the interpretation of this table that an increasing proportion of total funds needed is being supplied by internally generated funds. And I do not see that that table shows that, unless we use the year 1946 as a base year. That would be, I think, a misleading year. But let us use the year 1948, or any of those subsequent years, and it seems to me that the proportion of funds used by corporations and supplied by themselves is remaining approximately the same, or possibly it could be read as declining slightly.

Further, I would like to point out that corporations do not normally secure most of their long-term funds from banks. They secure them from corporations such as my own, and the corporate issues, both publicly offered and directly placed, of course, have been increasing tremendously, and, in fact, have been all that the market could handle.

So, although I certainly think you have raised a very important point, Congressman, it does not seem to me that it has the undesirable aspect which you imply.

Representative Patman. You take the depreciation and depletion allowances. They have steadily gone up. Now, you correctly point out that the other has remained pretty well on an even keel, and possibly has been lowered from about \$12 billion on down to about \$10 billion last year. But the other has consistently gone up from \$6.3 billion in 1948 to \$12 billion past year, almost double in depreciation allowances.

Mr. Seltzer. We have had enormous expansion in plant, and we have had this accelerated depreciation.

Mr. McKinley. That necessarily follows.

Mr. Seltzer. If you take a look at these figures for the external sources of funds, you will find that they, too, have been going up, that is, the absolute figures.

Representative Patman. Which one?

Mr. Seltzer. Well, net new issues.

Representative Patman. That is the only one.

Mr. Seltzer. That is the one that you are primarily interested in.

Representative Patman. Yes; that is right; it was lower last year, but it is——

Mr. Seltzer. But it is three times what it was in 1946.

Representative Patman. Yes; it is 50 percent more than it was in 1948.

Mr. Riefler. There are two other trends, I think, that bear on the problem. One is growth in the economy. As the economy grows it has a larger proportion of assets to be depreciated. With the application of stable depreciation rates, that will result in an increasing trend.

Representative Patman. Then the fast amortization, I assume, has entered into this thing, too.

Mr. Riefler. The second factor is inflation, which creeps into depreciation figures after a lag. Depreciation in general is based on original cost. You are now getting a reflection in the depreciation figures of the higher costs of the replacements that have been put in place in recent years. There are a lot of trends in these figures.

Mr. Reierson. There is another trend also, namely, that the proportion of corporate profits remaining after taxes, distributed in dividends, seems to be rising somewhat.

Mr. McKinley. Mr. Riefler, you made the statement that, speaking of the Federal Reserve absorption of seasonal surplus funds, you said, "The funds released by the reversal of these seasonal drains in January had in turn been absorbed by the Federal Open-Market Committee."

I agree with you that they should have been. But is it a fact that Federal Reserve holdings of Government securities have declined over January? I had the feeling, just looking at the week-to-week figures, that they were almost steady.

Mr. Riefler. Oh, no.

Mr. McKinley. No?

Mr. Riefler. No. The big absorption was the liquidation of the repurchase agreements entered into in December. But if you take the net reserve position, which you can measure best by the margin between excess reserves and member banks borrowing, I think you will find complete absorption by the first week in February, or during the first half of February.

Now, in January, several things happened, including a much larger Treasury overdraft than had been forecast, and also because of the storms, a much larger float than could have been expected at that time. But those were temporary factors.

Mr. McKinley. Would you interpret the present Federal Reserve policy in the open market as neutral? That is, would you say that their present actions are designed to absorb the seasonal excess of funds in circulation, or would you say that their policy is slightly expansive, that is, that they are not keeping up with the decline in money circulation and the decline in bank loans? In other words, they are not keeping up with the rise in surplus bank reserves?

I hoped that your answer would be that it is neutral, because I feel that would be the appropriate policy. But, of course, it is difficult to tell.

Mr. RIEFLER. No. I would not describe it as neutral. I would say that the policy is to maintain the condition of active ease that was established in 1953.

Mr. McKINLEY. Thank you.

Representative PATMAN. I would like to ask Mr. Smith a question, Mr. Chairman.

Do you think that the tight money policy of the first half of 1953 was justified or a mistake?

Mr. SMITH. Congressman Patman, I would rather not answer yes or no. Let me put it this way, if it will satisfy you.

When the Government did that, with the tremendous amount of refinancing it had to do, it put itself in a position as competitor with mortgage borrowers, corporate borrowers, and municipal and local government borrowers. And, if it had maintained that policy through the year, I predicted that the Government would be paying 4 percent or more for long-term money before the year was out.

I could not see these competing borrowers being run out of the market, because the corporation, for example, can subtract its interest costs against its income tax, or against its income. So if it is in the 50-percent bracket, for example, an interest increase of 1 percent would cost it only ½ percent. I could not see municipal governments being run out of the market either because there the investor, the fellow who buys municipal bonds for investment purposes, has all of that income exempt.

I am trying to avoid, sir, any possibility of getting myself into a political position. But regardless of the politics of it, I considered it an unwise policy, as an economist. I thought the circumstances did not justify such a quick pronounced turnaround. I think we have, sir, a situation debtwise, that has become pretty substantially built into our economy, and we are going to have to make up our minds that there is no quick way out of it, and if our grandchildren see the day when there is a way out of it completely, I will be surprised.

Representative PATMAN. Now, about the national debt, can you see in the future a time when we will substantially even reduce the national debt?

Mr. SMITH. I do not foresee the day when we can take a quick slice at the national debt. I am obliged to say that I do not foresee the day when there will be any substantial reduction in it.

Representative PATMAN. Is it not a fact that our economy has grown—and, as one of you gentlemen pointed out, our money supply is really based upon credit. If we were to substantially reduce our national debt, would we not cause a deflation and possibly a devastating or crushing deflation?

Mr. SMITH. If one holds to the position that the expansion of debt, and particularly the Federal debt, has contributed to the inflation that we have been in, and are still in, then I do not see how he could consistently reason that the reversal of that policy would not contribute to deflation, except over a long period of time, during which the country might grow up to that vast amount of currency as we apparently did after the Civil War.

Representative PATMAN. That is right; and doubtless we will if we continue to increase and expand.

Mr. SMITH. Yes.

Chairman WOLCOTT. Will you yield, Mr. Patman, for just an observation?

Representative PATMAN. Certainly.

Chairman WOLCOTT. Because deficit financing and the monetization of debt at present has a great influence upon the value of the dollar, and can create inflation or deflation by the manipulation of it, it does not necessarily follow that we have to follow that course, does it? Because at one time there was very little relationship between Government debt and the value of our money. We created that situation, as I recall it, in the late thirties.

Mr. SMITH. Mr. Chairman, it would seem to me that what we should strive for is a reasonable amount of stability and neither deflation nor further inflation.

I would hope, sir, if I might make a statement related to the overall problem that all of us have at heart, that if our country ever faces war again—let us hope it never does—but if it does, that somehow the capital expenditure for military plant can be separated from private commitments in that regard.

We might, of course, very well, because of the necessary know-how, get the people who run private industry to run our military plants, but to separate, if possible, from our production capacity as much of the military plant as we can, make it Government-owned, and close it up when the war is over and put it in as hard oil as possible for future use.

I think we are facing a situation that has grown largely out of the war, and somehow in the future I would like to see that terrific influence separated.

There is another point I would like to make. It seems to me that, if we ever get in another war, we ought to put the taxes on and put them on high. We borrowed too much last time.

Representative PATMAN. I advocated that in the beginning of this World War II.

Mr. SMITH. I think most economists of the country, sir, took the position that we should pay for as much of the war as possible when it was fought. But we paid for only about 40 percent of it.

Representative PATMAN. But Congress would not pass the necessary tax bills.

Now, I want to ask you about the uncertainty on this interest rate. It occurs to me that the confusion and uncertainty during the first half of 1953 as to interest rates kept lenders out of the market. They kept wanting more money. Don't you think that had something to do with it?

Mr. SMITH. I think people who deal in money as a business anticipate just the same as a man who deals in men's clothing or in any other kind of inventory, and if they expect a higher interest rate, they are going to hold off for a little while in anticipation of that, so that they will have something still left to sell, so to speak, when rates are high.

Representative PATMAN. Our distinguished friend and colleague, the chairman of this committee, Mr. Wolcott, introduced a bill a few days ago concerning housing that has me disturbed just a little bit, in the provision allowing the President to increase interest rates up to 2½ percent, if necessary, to attract investors. It occurs to me that will cause the same situation that was caused in the early part of 1953, that it will hold out hope to the investors, "Now, hold on, and you will get more money," which will result in less money being invested and less expansion.

Have you studied that problem?

Mr. SMITH. No. I would prefer not to answer that.

Representative PATMAN. I do not want to get you in controversy with the chairman of the committee.

Chairman WOLCOTT. I am not in a controversial mood this morning.

Senator FLANDERS. There is a pertinent but rather puzzling statement with regard to the influence of interest rates on business borrowing to be found in Mr. McKinley's paper. It says, "The life-insurance industry has consistently taken the position that it is not low interest rates which encourage business borrowing, but a plentiful supply of loanable funds." There is a statement which indicates that it is not rates that determine the borrowing.

I would like to ask Mr. McKinley, then, about a plentiful supply of loanable funds. How do the loanable funds find their borrowers? It seems strange to dissociate demand from interest rates.

Mr. McKINLEY. I think it is quite important to make a distinction between them, at least when one is considering policy. Now, in theoretical discussion in the universities, it may not be essential to make this distinction. But for policy considerations, I think it is very important, because Congress and the administration and Government agencies have the power to prevent these two things from going together. That is, usually low interest rates are associated with a plentiful supply of funds. But they do not necessarily go together. For instance, on the Government bond pegs, you can artificially keep the price fixed regardless of the supply of funds. So we think it is quite important that it be realized that it is a plentiful supply of funds which encourages borrowing, and that from a positive consideration——

Senator FLANDERS. How does it encourage borrowing? What is the mechanism?

Mr. McKINLEY. Simply that we, life insurance companies, commercial banks, savings and loan associations, are most anxious to place our funds. And we go out and solicit——

Senator FLANDERS. All right. It is a sales effort, is it?

Mr. McKINLEY. It is a sales effort; yes, it is.

Senator FLANDERS. And by increasing or diminishing your sales effort, you can increase or diminish borrowing to some extent irrespective of the interest rate?

Mr. McKINLEY. Yes. If the supply of funds were very curtailed relative to the demand, then we might have a borrower approach us, and we would not try to get what we could out of the market interest-wise. We would just say to this borrower, "I am sorry. We are committed. We do not have enough funds."

Now, that would be preventing that borrower from engaging in, let us say, plant and equipment expenditures, so that a shortage of funds certainly can curb business activity. But it is not the high interest rate. It is rather the shortage of funds, the actual turndown of the borrower, which curbs the business activity.

Conversely, it is not the lower interest rate, but it is our willingness and ability—if we have the ability, we are always willing—to lend to sound borrowers, which does encourage the rate of borrowing.

I wonder if I could just make a comment on Congressman Patman's point. I would certainly like to exempt life insurance companies from your general statement, sir, that we held off anticipating higher rates. As I have said in my paper, there was a widespread feeling in the life insurance business that Government security yields were driven up too far in the beginning of 1953. In other words, the point I am trying to make there is that we feel the Federal Reserve overdid a little bit. We think they realized that, and they made it more flexible following that. But at the moment, we think they overdid it. We were therefore opposed to the degree of tightness then being introduced on the market, and we neither then nor at any other time would ever attempt to hold off funds. That is, we invest our funds as fast as we can get them, of course at the best rates that we can get. But we never hold off funds.

In other words, a life insurance company should not speculate with its funds. That would be what we would be doing. We would be speculating for a higher interest rate. And I do not believe that that was characteristic at all of other lending institutions. I know quite a bit about savings and loan associations, and I know they were in the market trying to supply all the funds that they could at that time, and I would say that that was true of commercial banks, that no one was holding off for higher interest rates, and that a good portion of the financial community felt that at least the tightness of credit, regardless of the interest rate, was what was——

Representative PATMAN. May I interrupt right there? We were told in the Congress that we had to increase the rate to be charged on veteran loans because the lenders just would not make the loans.

Mr. MCKINLEY. That is true. If we are faced with two alternative investments, thinking, of course, that we are investing our policyholders' money, naturally if they are of equal soundness, we will prefer that loan paying us the higher yield. But we would never hold off funds, I mean, from the market as a whole. We might select this avenue versus that avenue. But we would never hold off funds in order to try to induce a rise in the interest rate or to hope for a rise in the interest rates.

I believe you are correct in saying that the artificially held-down rate on Government-insured and guaranteed loans did create at that time a shortage, although that has been remedied since then.

Chairman WOLCOTT. Mr. Reierson?

Mr. REIERSON. Speaking to your last question, Representative Patman, I think I can confirm what Mr. McKinley observed with reference to the investment practices of life-insurance companies and savings and loan associations.

The institution with which I happen to be connected is a very substantial holder of trust funds, pension and other. I see no evidence that in 1953 there was any inclination to hold off making investments or to invest in short-term obligations in the expectation of being able to achieve a higher rate later on. The general practice was to invest funds pretty much as they came in. And if we look at the record of new security flotations, I think that we will find that the record shows a terrific bulge in the second quarter of last year and a very large volume in the third quarter as well.

Now, an observation with reference to the impact of a restrictive credit policy upon bank lending. I have the feeling, although it is difficult to generalize about the impact of any policy upon 14,000 commercial banks, that the policy pursued in the first and second quarters of last year, on balance, probably had some restrictive effect upon bank lending operations. The reserve positions of the banks were tight, and again, observing what happened in a particular institution, what I detected was a desire on the part of management to restrain loan expansion, a suggestion to borrowers that they try to get along without a loan if they could, and an unwillingness to increase lines to sales finance companies, specifically, during that period.

There is no evidence that I know of, based upon our experience, that we reduced lines of credit into which we had entered. There was no evidence, either, so far as I know, that we reneged upon any line of credit that we granted.

On balance, I take a position somewhat more sympathetic to the credit policy pursued than that evidenced by Mr. Smith. I guess a certain amount of difference of opinion among the members of this panel would be wholesome and is to be expected.

I have the feeling that the conditions of the economy in the first part of 1953 justified a restrictive credit policy, that in the field of bank lending it did not contribute to a shutting off of the availability of bank credit, but was simply a restraining influence. To the extent that it is possible to establish cause and effect relationships in this very difficult area, the restrictive credit policy, operating through its impact on bank lending, may have contributed to some easing of inventory accumulation, which in the second quarter of last year was proceeding at a rate of around 10 percent a year, and probably to some easing in the rate of expansion of consumer credit. But even there the volume of outstanding installment credit increased every month in 1953. So credit was not shut off.

Representative PATMAN. Now, on the interest rates, I want to ask you a question there about the banks. How do you explain that after the hard money policy was eased last year and other interest rates went down, the banks continued to increase their interest rates, and have not reduced demand? I am talking about prime rates. I have them here. They have consistently increased from 1951 quarterly, 3.02; 3.07; 3.27; 3.45, on down to 1953, 3.54, and then in September, 3.74, and then in December, 3.76. They have consistently increased. And although the hard money policy was put in reverse, or on an about-face, or a complete change, if we will call it, the interest rates kept on going up with the banks. How do you explain that?

I would like at this point to put in the record a table showing the rates charged by banks quarterly from 1947 through 1953, and along with it selected statistics on the American economy for the same period, showing the association of unemployment, housing starts, and interest rates by months.

(The table referred to follows:)

Selected statistics on the American economy, 1947 through 1953

Date	Unemployment[1]	New housing starts[2]	Price of long-term U. S. Government bonds[3]	Municipal bond yields (high-grade)	Prime commercial paper interest rates, 4 to 6 months	Corporate AAA bond yields (Moody's)	Average rates charged on short-term business loans by banks (quarterly)[4]
	Thousands			*Percent*	*Percent*	*Percent*	*Percent*
1947—January	2,400	39,300	$104.32	1.92	1.00	2.57	
February	2,490	42,800	104.35	1.99	1.00	2.55	
March	2,330	56,000	104.61	2.02	1.00	2.55	2.31
April	2,420	67,100	104.57	1.98	1.00	2.53	
May	1,960	72,900	104.48	1.95	1.00	2.53	
June	2,555	77,200	104.08	1.92	1.00	2.55	2.38
July	2,584	81,100	103.75	1.91	1.00	2.55	
August	2,096	86,300	103.89	1.93	1.00	2.56	
September	1,912	93,800	103.95	1.92	1.06	2.61	2.21
October	1,687	94,000	103.44	2.02	1.06	2.70	
November	1,621	79,700	102.11	2.18	1.06	2.77	
December	1,643	58,800	101.59	2.35	1.19	2.86	2.22
1948—January	2,065	53,500	100.70	2.45	1.31	2.86	
February	2,639	50,100	100.70	2.55	1.38	2.85	
March	2,440	76,400	100.78	2.52	1.38	2.83	2.46
April	2,193	99,500	100.84	2.38	1.38	2.78	
May	1,761	100,300	101.20	2.31	1.38	2.76	
June	2,184	97,800	101.23	2.26	1.38	2.76	2.59
July	2,227	95,000	100.82	2.33	1.38	2.81	
August	1,941	86,700	100.73	2.45	1.44	2.84	
September	1,899	82,300	100.70	2.46	1.56	2.84	2.70
October	1,642	73,400	100.69	2.45	1.56	2.84	
November	1,831	63,700	100.79	2.42	1.56	2.84	
December	1,941	52,900	100.89	2.26	1.56	2.79	2.71
1949—January	2,664	50,000	101.16	2.15	1.56	2.71	
February	3,221	50,400	101.51	2.23	1.56	2.71	
March	3,167	69,400	101.67	2.21	1.56	2.70	2.70
April	3,016	88,300	101.65	2.20	1.56	2.70	
May	3,289	95,400	101.62	2.20	1.56	2.71	
June	3,778	95,500	101.72	2.28	1.56	2.71	2.74
July	4,095	96,100	103.29	2.26	1.56	2.67	
August	3,689	99,000	103.63	2.20	1.44	2.62	
September	3,351	102,900	103.86	2.22	1.38	2.60	2.63
October	3,576	104,300	103.90	2.21	1.38	2.61	
November	3,409	95,500	104.22	2.17	1.38	2.60	
December	3,489	78,300	104.36	2.13	1.31	2.58	2.65
1950—January	4,480	78,700	104.16	2.08	1.31	2.57	
February	4,684	82,900	103.62	2.06	1.31	2.58	
March	4,123	117,300	103.24	2.07	1.31	2.58	2.60
April	3,515	133,400	102.87	2.08	1.31	2.60	
May	3,057	149,100	102.73	2.07	1.31	2.61	
June	3,384	144,300	102.42	2.09	1.31	2.62	2.68
July	3,213	144,400	102.24	2.09	1.31	2.65	
August	2,500	141,900	102.28	1.90	1.44	2.61	
September	2,341	120,600	101.90	1.88	1.66	2.64	2.63
October	1,940	102,500	101.64	1.82	1.73	2.67	
November	2,240	87,300	101.69	1.79	1.69	2.67	
December	2,229	93,600	101.53	1.77	1.72	2.67	2.84
1951—							
January	2,503	85,900	101.56	1.62	1.86	2.66	
February	2,407	80,600	101.44	1.61	1.96	2.66	
March	2,147	93,800	100.28	1.87	2.06	2.78	3.02
April	1,744	96,200	98.93	2.05	2.13	2.87	
May	1,609	101,000	97.90	2.09	2.17	2.88	
June	1,980	132,500	97.62	2.22	2.31	2.94	3.07
July	1,856	90,500	97.93	2.18	2.31	2.94	
August	1,578	89,100	98.90	2.04	2.26	2.88	
September	1,606	96,400	99.10	2.05	2.19	2.84	3.06
October	1,616	90,000	98.22	2.08	2.21	2.89	
November	1,828	74,500	97.52	2.07	2.25	2.96	
December	1,674	60,800	96.85	2.10	2.31	3.01	3.27
1952—							
January	2,054	64,900	96.27	2.10	2.38	2.98	
February	2,086	77,700	96.77	2.04	2.38	2.93	
March	1,804	103,900	96.87	2.07	2.38	2.96	3.45
April	1,612	106,200	97.95	2.01	2.35	2.93	
May	1,602	109,600	98.91	2.05	2.31	2.93	
June	1,818	103,500	98.32	2.10	2.31	2.94	3.51
July	1,942	102,600	98.40	2.12	2.31	2.95	
August	1,604	99,100	97.09	2.22	2.31	2.94	
September	1,438	100,800	96.86	2.33	2.31	2.95	3.49
October	1,284	101,100	96.44	2.42	2.31	3.01	
November	1,418	86,100	96.96	2.40	2.31	2.98	
December	1,412	71,500	96.32	2.40	2.31	2.97	3.51

See footnote at end of table.

Selected statistics on the American economy, 1947 through 1953—Continued

Date	Unemployment [1]	New housing starts [2]	Price of long-term U. S. Government bonds [3]	Municipal bond yields (high-grade)	Prime commercial paper interest rates, 4 to 6 months	Corporate AAA bond yields (Moody's)	Average rates charged on short-term business loans by banks (quarterly) [4]
	Thousands			*Percent*	*Percent*	*Percent*	*Percent*
1953—							
January	1,892	72,100	95.68	2.47	2.31	3.02	
February	1,788	79,200	95.28	2.54	2.31	3.07	
March	1,674	105,800	94 31	2.61	2.36	3.12	3.54
April	1,582	111,400	93 25	2.63	2.44	3.23	
May	1,306	108,300	91.59	2.73	2 68	3.34	
June	1,562	104,600	91.56	2.99	2.75	3.40	3.73
July	1,548	96,700	92.98	2.99	2.75	3.28	
August	1,240	93,200	92.89	2.88	2.75	3.24	
September	1,246	95,100	93.40	2.88	2 75	3.29	3.74
October	1,162	[5] 88,000	95.28	2.72	2.55	3.16	
November	1,428	[5] 80,000	94.98	2.62	2.32	3.11	
December	1,850	[5] 68,000	94.85	2.59	2.25	3.13	3.76

[1] In terms of persons 14 years of age and over.
[2] Represents new nonfarm units started.
[3] Beginning Apr. 1, 1952, series includes all fully taxable marketable bonds due on first callable after 12 years. Prior to that date only bonds due or callable after 15 years were included.
[4] In 19 selected cities, quarterly.
[5] Estimated.

Sources: Board of Governors of the Federal Reserve System. U. D. Department of Commerce. U. S. Department of Labor.

Mr. REIERSON. Mr. Patman, that is not an entirely unexpected question, I might add.

I think we must start with the recognition that bank lending rates tend to lag behind what happens in the financial markets.

Representative PATMAN. They did not lag behind when it is time to increase, did they?

Mr. REIERSON. Yes; I think on balance they did. I think the record will indicate, Mr. Patman, that rates on smaller commercial loans are more stable than rates on large business loans, that the money market banks did mark up their so-called prime rate, but I doubt very much that the increase in money market rates was followed generally to a corresponding degree by an increase in the lending rates outside the money market areas, among the smaller and medium-sized banks.

There is a natural reluctance on the part of business enterprise to reduce prices until the force of economic circumstances makes that course of action desirable and necessary.

I have a feeling myself that the bank lending rates are no barrier to credit expansion. I think the important thing from the point of view of the economy is that credit be available. I think the changes in the credit and debt management policies, beginning around the middle of 1953, did make a substantial contribution to the more ready availability of bank credit, and eased the reserve position of the banks. The banks were no longer so much concerned about the reserve position. That has been reflected in a greater desire on the part of banks to make loans. And so far as the economic impact is concerned, I personally doubt that a quarter percent change in the rate at which bank credit is made available would be of much economic significance.

Representative PATMAN. You mean the discount rate?

Mr. REIERSON. No. I am talking about the bank lending rate. I thing the important thing is the availability of bank cr^edit.

Representative PATMAN. I agree with you on that. The availability, of course, is No. 1.

Mr. RIEFLER. Could I talk to that for a minute, Mr. Chairman?

Chairman WOLCOTT. Mr. Riefler.

Mr. RIEFLER. I think it is a great mistake for the financial institutions to associate themselves too completely with the view that the only effect of monetary and credit policies on the economic growth and stability is the availability of credit. This view is in Mr. McKinley's paper and it is in Mr. Reierson's comment.

I think we have to distinguish between two types of effects. A dynamic, growing economy such as ours usually has a margin of unsatisfied borrowers and of projects, that, if funds were available, would be initiated and put into effect. That is a very important segment of the picture, and it is that segment that is affected most by changes in the availability of credit. When credit tightens, the most preferred borrowers get the loans and the marginal borrowers do not. When credit eases, all credit-worthy borrowers have a better chance to get loans. That is a very important factor in maintaining economic stability. It is the point that was stressed by both Mr. McKinley and Mr. Reierson.

I do not think it would be sound for the financial institutions, however, to go to the second proposition, that relative levels of interest rates in themselves have no effect on the demand for credit. Interest is a very important price. Just to take one very simple illustration, when interest rates rise, the capital value of bonds tends to decline. It goes below acquisition costs. Holders of such assets are obviously more careful about disposing of them to take losses. When interest rates rise, capital assets rise in value. Then there is greater liquidity in the economy and fluidity, on the part of individuals in transferring assets from one category to another in order to undertake new commitments.

I think that part of the illusion that low interest rates in themselves do not stimulate activity comes from the experience of the great depression of the 1930's, when interest rates went lower and lower and lower, and nothing seemed to happen. In a sense, that was a special case. If you will recall, the whole development of the thirties was ushered in by the crash in the stock market, in which values were destroyed. It was followed very shortly by a forced liquidation of securities on the part of failing banks. At almost no time during the course of the thirties, until very late, was the mass of assets which people held, whose prices are affected by interest rates through capitalization, responsive to the lower levels of interest rates. The actual price of those assets was usually below acquisition costs, and represented losses to the owners. As a result we did not experience a situation until very late in the thirties, where the effect of interest rates in raising capital values above acquisition costs was very widespread.

Chairman WOLCOTT. Mr. Reierson?

Mr. REIERSON. In clarification of my position, Mr. Riefler, may I say that my references to interest rates referred to rates on short-term commercial loans. I was not speaking of the broader question of bond yields and mortgage rates.

Mr. RIEFLER. Yes. Clearly that is the important area.

Chairman WOLCOTT. Mr. McKinley.

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Mr. McKINLEY. My point was not that a fall in interest rates does not affect the availability of credit, nor a rise. I agree with you, Mr. Riefler, that, of course, as yields change, so do prices, amounting to the same thing, and that a reduction in the price of assets now held, particularly Government securities, by institutions, does tighten the availability of credit. I was thinking, however, of whether or not it stimulated borowing, and not whether it changed the available credit.

If a change in the interest rates or prices changes the availability of credit, then, of course, it may have an important effect on business activity. But I think it will have that important effect by changing the availability of credit rather than through the changing interest rates, changing the borrowers' desire to increase their loans.

Mr. SELTZER. In housing, a reduction in interest rates reduces the monthly payments, and has an effect that way, does it not?

Mr. McKINLEY. It does, but I feel sure—we have quite extensive experience in that field—and I myself as a purchaser of a home can think of the way I look at it, and I do not believe that home purchasers are actually encouraged to buy homes by figuring the difference in the interest rate in their monthly payments.

Senator FLANDERS. However, it has, in amortizing a housing mortgage, a difference in the monthly payments which the prospective house builder or purchaser has to pay. It is right there before him.

Mr. McKINLEY. Yes, sir. If you increase the length of term over which the mortgage was to be repaid or if you reduce the downpayment, I think both of those would have an important effect on the volume of home mortgage loans. But the rate of interest, the interest charge itself, I do not myself believe is an important calculation in a home purchaser's decision to buy or not to buy a home.

Senator FLANDERS. One instance does not establish a rule. But I was thinking of a young man of my acquaintance who was seeking some other source of funds that would give him a one-half of 1 percent less interest rate because it did seem to make a very definite difference in his monthsly payments.

Mr. SELTZER. Obviously, if the monthly payments make any difference at all—and I am sure nobody would deny that they would—anything that reduces the monthly payments should make a difference.

Mr. McKINLEY. Yes. It is a matter of degree. That is right.

Mr. SMITH. I want to go back to the statement made by Mr. Reierson, if these gentlemen are through pursuing the line of thought that they were pursuing.

Chairman WOLCOTT. Mr. Ensley has a question that he would like to ask you, Mr. McKinley.

Mr. ENSLEY. Mr. McKinley, would you give us your view on the outlook for individual or consumer savings in the next few months or year? You will recall that before World War II, and between World War II and the Korean war, individuals saved about 5 percent of their disposable income. In the last couple of years, however, it has been running between 7 and 7½ percent. Now, that makes quite a difference in consumer demand.

Do you have any feeling as to whether or not this relatively high rate of individual savings has become a new normal, so to speak, or will it decline, do you think, in the coming months?

Mr. McKINLEY. I would like to begin by saying that the savings to which you refer, I judge from your savings figures, are the Department of Commerce personal savings, and those are influenced by the rate of home purchases, since, by the particular definition there adopted, change in home equity is in personal savings. So that introduces an element into that savings figure which does not accord with the generally accepted understanding of the term.

If I may ignore the reference to the Department of Commerce personal savings and speak simply of liquid savings, meaning by that mostly accumulations through life-insurance companies, savings and loan associations, mutual savings banks, commercial banks, and so forth, I feel that they will not decline during this coming year. I think that many people have put forward the proposition that they can rely on the use of savings to maintain business activity in this year, and that they have therefore drawn the conclusion that liquid savings will decline.

I do not think that liquid savings react in that manner. I think it takes at least a year and possibly 2 years of declining business activity before the total of liquid savings will decline due to people dipping into them. And that is borne out by what happened in 1949, for instance. No appreciable decline of liquid savings occurred then.

So during this coming year, in our statement of sources and uses, which is in the statement which I would like to submit, with your permission, Mr. Chairman, for the record, we feel that liquid savings generally will be maintained during this coming year at approximately their present level. We think that savings through life-insurance companies, because of their contractual nature and because of the increased sale of life insurance, will rise.

We do believe that the type of savings offered on the money market by noninstitutional lenders will decline. I am thinking there of a man who finances his son, or the small mortgage lender. I think that type of offering on the money market will decline, as it usually does when there is ample supply through institutional lending.

(The supplementary statement of Mr. McKinley referred to follows:)

In addition to my oral remarks before the committee, I would like to present the following supplementary statement which takes up in greater detail the calculation of the expected sources and uses of investable funds in 1954.

My expectations regarding the demand and supply of investment funds in 1954 are shown in the last column of the accompanying table. This "Sources and uses" table shows only the net changes in the demand and supply of investment funds. For instance, corporate issues outstanding are shown to have increased by $7.4 billion in the calendar year 1953. This is not the gross amount of securities floated by corporations. It is the net increase in outstanding corporate securities, exclusive of refinancing. Similarly, on the supply side, the net increase in earning assets of life-insurance companies in 1953 is shown to have been $5.2 billion. Actually, the "cash flow" of all life-insurance companies in 1953 was somewhere in the neighborhood of $8 billion. (The "cash flow" is a rough measure of the funds which must be invested by life companies, apart from any funds arising as the result of a decision by the life companies to switch out of one investment into another. In practice, it is described by the Life Insurance Association of America as the net increase in assets plus maturities and amortizations, but not including calls other than compulsory calls under sinking funds and not including changes from one earning asset to another at the option of the life-insurance company.)

The table therefore shows the net change in the demand for funds and the net change in the supply of funds over each year. It avoids the unnecessary duplication which would result from the inclusion of such offsetting items as refinancing on the demand side, and reinvestment on the supply side.

One other aspect of this "Sources and uses" table which requires further explanation is the item "Federal Reserve purchases of Government securities." Where the Federal Reserve purchases Government securities directly from the Treasury, it is obvious that the Reserve banks must be included as suppliers of loanable funds. Where, however, the Federal Reserve purchases already outstanding Government securities from some private holder such as a life-insurance company, it might at first thought appear that listing both the life-insurance company and the Federal Reserve as suppliers would involve counting the same funds twice. Further thought will indicate, however, that Federal Reserve purchases of Government securities (wherever purchased) constitute an independent source of funds, over and above the funds supplied by other institutions.

If the Federal Reserve purchases Government securities from a life-insurance company the result will be a decline in the earning assets of the life-insurance company which will just offset the increase in earning assets by the Federal Reserve bank. But the life-insurance company will of course now invest the funds received from the sale of the Government securities, so that the Federal Reserve holdings of governments will constitute a net addition to the total supply of investment funds. (This operation will of course also have a further effect on the credit-creating capacity of the commercial banks, because reserves of the commercial banking system will be increased.)

The above line of reasoning does not apply, however, to extensions of Federal Reserve credit through discounts and advances. If the Federal Reserve lends money to a commercial bank, it is true that it will increase bank reserves and therefore will increase the total supply of credit. But in this case it would be incorrect to list both the Federal Reserve and the commercial bank as suppliers of credit. If the funds supplied by discounts and advances form the basis of increased commercial bank investments, they will be shown in the "Sources and uses" table as an increase in the earning assets of the commercial banks. Showing them again as funds supplied by the Federal Reserve would involve double-counting. For this reason, the "Sources and uses" table does not list the Federal Reserve as an independent supplier of funds through discounts and advances, but does list the Federal Reserve as an independent supplier of funds through net purchases of Government securities.

As indicated in my oral statement, I expect the 1954 demand for funds, apart from the demand of the Federal Government, to be only slightly below the 1953 level. Since, however, the need of the Federal Government for net new funds in calendar 1954 will probably not exceed $1 billion whereas in 1953 the Federal Government increased its borrowings by over $5 billion, the total (Government and private) demand for funds in 1954 will be appreciably less than 1953.

The supply of funds in 1954, apart from the funds supplied by the Federal Reserve and the commercial banking system, will also be lower than in 1953. Institutional lenders, particularly life insurance companies and State trust funds, will have more to invest in 1954, but I expect a substantial drop in the volume of funds supplied by individual lenders including nonincorporated businesses.

If the Federal Reserve does not add further to the supply of funds, the total supply including commercial bank credit will be quite adequate to meet all sound needs at the current low level of interest rates.

For the reasons given in my oral statement, I am of the opinion that further action by the Federal Reserve to ease the money market in 1954 is both unnecessary and undesirable.

Sources and uses of major types of credit and capital, 1948–54 [1]

[Billions of dollars]

	1948	1949	1950	1951	1952	1953 [1]	1954 [1]
Demand:							
Corporate issues	5.9	4.9	3.7	6.3	8.1	7.4	6.0
Commercial bank loans	2.3	−1.0	6.1	4.7	3.6	2.0	1.8
Business	.7	−1.8	4.8	4.0	2.0	------	------
Agricultural	1.0	.2	−.1	.5	.5	------	------
To purchase or carry securities	.3	.3	.3	−.3	.6	------	------
Other (except consumer credit)	.3	.3	1.1	.5	.5	------	------
Mortgage loans	7.3	6.5	10.2	9.3	8.7	9.2	9.2
Nonfarm	7.1	6.2	9.7	8.8	8.2	------	------
Farm	.2	.3	.5	.5	.5	------	------
Consumer credit	2.8	2.7	3.7	.7	4.4	3.1	2.5
United States Government (net cash)	−7.0	1.7	−.9	−1.2	3.4	0.1	.5
State and local	1.9	2.2	3.3	2.8	2.4	4.0	4.5
Foreign and world bank	−.1	.1	.2	.4	.2	.3	.4
Other demands [2]	−1.6	.9	−.3	1.2	−.2	−.8	------
Total	11.5	18.0	26.0	24.2	30.6	30.3	24.9
Supply:							
Life insurance companies	3.5	3.8	3.9	3.9	4.8	5.2	5.5
Mutual savings banks	.7	1.0	1.0	1.0	1.7	1.8	1.8
Savings and loan associations	1.2	1.3	2.1	2.1	3.1	3.5	3.6
Fire, casualty and marine insurance companies	.9	.8	.7	.6	.8	.9	.9
Corporate funds	.7	1.9	3.9	1.0	−.1	.2	------
Individual lenders	4.4	3.9	2.2	3.7	5.6	8.7	7.0
Sales finance companies, credit unions, and other sources of consumer credit	1.8	1.6	2.1	.3	2.2	1.8	1.5
Mortgage loans by Federal agencies	.1	.5	.3	.6	.4	.5	.4
States and municipalities, corporate pension funds, foreign accounts, and others	1.1	1.7	1.2	2.0	2.2	2.4	2.5
Commercial banks	−2.0	6.0	6.6	6.0	9.0	4.0	1.7
Federal Reserve purchases of Government securities	−.9	−4.5	2.0	3.0	.9	1.3	------
Total	11.5	18.0	26.0	24.2	30.6	30.3	24.9

[1] 1953 estimated on basis of preliminary figures, 1954 projected.
[2] Includes statistical discrepancy arising from difference between change in par value and change in book value of holders of securities, and the statistical error usual when data are obtained from many different sources.

Senator FLANDERS. Excuse me.

I want to ask: Is what you are saying that the total volume of savings will level off? You say it will not decline; you do not expect a continued rise at the present rate?

Mr. MCKINLEY. I would say that the percentage of personal income saved in the form of liquid savings will remain about as it has in the past few years; yes, sir.

Representative TALLE. With reference to the figures on per capita savings that you referred to, as issued by the Department of Commerce, do you think that they are also influenced by the growth of consumer credit?

Mr. MCKINLEY. Those are net figures. That is true. As debt rises, the net figure shown for savings would tend to decline—that is, they would offset a certain amount of positive savings elsewhere in the sector.

Representative TALLE. Another panel which we had sometime ago included at least two people who said that consumer credit would continue to run high and that that would influence the savings figure as issued by the Department of Commerce.

Mr. McKinley. Yes. That is an important point. If we do not expect as great an increase in debt, then there would not be as much offset to savings, and, therefore, there would be even more reason to suppose they would at least be maintained at their present levels and possibly increased a little .

Representative Talle. Now, may I ask you another question that goes back to the previous discussion about withholding credit in the hope of getting a higher rate of interest? Wouldn't that be a frightfully costly venture?

Mr. McKinley. Yes. It would not only be costly but, at least, from the point of view of the life-insurance company, it would simply be impossible. It would not only go against tradition in the industry but I believe we would not be able to explain that to our policyholders—the holding of a large amount in cash—and, consequently, if you look at the statements of life-insurance companies, you will see that they more or less as a matter of course invest their flow of funds. They do not ever speculate on which way the market might go.

But your point is also very correct. Of course, we would lose all the interest.

Representative Talle. It would seem to me that that would also apply to other people who have loanable funds.

Mr. McKinley. To all institutional lenders, I think, the same argument would be true; yes, sir.

Mr. Smith. May I ask a question along that line, Mr. Chairman?

Chairman Wolcott. Yes, sir.

Mr. Smith. What reaction did the insurance companies display toward buying Government securities—United States Government securities—after the $3\frac{1}{4}$-percent issue came out?

Mr. McKinley. Life-insurance companies are not interested in Government securities as a voluntary or positive investment.

Mr. Smith. But you do hold them in your portfolio?

Mr. McKinley. We hold them only when we cannot get other investments. If you will notice what has been happening in the postwar period, we have been steadily unloading Government securities—not just our company but all life-insurance companies—as rapidly as possible, in order to acquire funds to supply the private sector of the economy; and I think it is characteristic of life-insurance companies to consider an investment in Government securities as a residual investment to keep funds earning if we do not find other outlets for them.

Mr. Smith. Let me direct the same question to Mr. Reierson. In your area, in the New York area, Mr. Reierson, how did the commercial banks behave toward the purchase of Government securities?

Mr. Reierson. You mean, purchase for their own account?

Mr. Smith. Yes; for their own account. Did they anticipate further declines in security prices and therefore hold off?

Mr. Reierson. In the first part of last year, the problem was how to reduce our holdings of Government securities, and not how to add to them for our own account.

Mr. Smith. Why?

Mr. Reierson. The reserve position was very tight.

Mr. Smith. Now, the question, Mr. Chairman, that I had originally intended to ask Mr. Reierson is this. If I understood Mr. Reierson correctly, he said that shortly after the issue of the 3¼-percent bonds and the subsequent increase in all types of money rates, either his bank—I am not clear on this—or banks in his area advised borrowers to hold off, and it seems that those banks did, to discourage borrowing. We did not have that experience in our part of the country, and I wondered why he had it in his.

Mr. REIERSON. Let me say again, in order that my position may be clear, that in that context, I was talking about our lending operations.

Mr. SMITH. That is what I am talking about now.

Mr. REIERSON. When I observed the desire to get potential borrowers to hold off their borrowings, I was there referring to their borrowings from the bank.

Mr. SMITH. That is what I was referring to.

Mr. REIERSON. I think the answer is that the money-market position in New York was probably tighter than in some other areas. I admit quite well that it is impossible to generalize about a system of 14,000 banks, but that the credit policy pursued in the first part of last year tended to discourage lending operations in the money-market banks and presumably in other areas, I think is correct.

Representative PATMAN. Mr. Chairman, may I interrupt there?

You state that the policy was to discourage. Where did you get the indication that that would be the policy? Did the Federal Reserve send out word?

Mr. REIERSON. I was referring to individual bank policy, and not governmental policy.

Representative PATMAN. Did you receive any policy statement from the Government that you should follow? Did you receive any instructions to the effect that you should tighten up from any governmental agency, including the Federal Reserve System?

Mr. REIERSON. To the best of my knowledge, there was no such directive.

Representative PATMAN. By word of mouth or otherwise?

Mr. REIERSON. So far as I know.

Now, I do not know what happens in telephone conversations. But I think that the essential point was that the conditions in the money market carried certain implications with reference to, and had some effects upon, banking policy. It was in this manner, rather than by any effort on the part of the authorities to suggest, advise, recommend, or direct that particular action be taken, that credit policy was made effective.

Representative PATMAN. Just like the other day in the reduction of the discount rate, that was an indication of easier money?

Mr. REIERSON. Yes, sir.

Mr. SMITH. May I go ahead with the question?

What Mr. Reierson said is rather surprising to me, because I had taken the position in my statement that banks do not contribute to a downturn until it has already started. And I am very curious to know whether Mr. Reierson's bank took that position because they anticipated economic troubles, and therefore advised their customers, or rather restrained their customers, "Don't borrow, because if you accumulate inventories, you will be in bad shape."

Did you put yourselves in the position of being economic counsel to them? That is what I am after.

Mr. REIERSON. Let me make two observations. In the first place, I make the point in my longer document—and I think I referred to it earlier in the oral statement—that bank lending policies did not go to the extreme of contracting credit. We did not call loans; we did not refuse to honor lines of credit extended. And that, I think, supports the contention that I made, that the policies and the developments in the credit markets in the first part of last year did not culminate in a spiral of credit contraction, which I think is an all-important observation to make.

Now, secondly, our desire to hold down on lending operations in the first part of last year reflected, I think it fair to say, in large measure the tight reserve position which we, together with other banks, found ourselves. And it was this situation rather than any attempt to provide economic counsel to our customers that was the basis of our actions.

Mr. SMITH. Of course, with the existence of the Federal Reserve System and what it is supposed to do, you put pourselves in an embarrassing position by not lending to worthy borrowers or worthy applicants.

That did not happen down our way, and that is why I was quite surprised to hear you say it. Interest rates moved up pretty quickly our way after the tight money policy was announced, and they have not moved back down appreciably, if at all.

Mr. REIERSON. I do not like to prolong this——

Mr. SMITH. May I ask you one more question, sir?

Is there a reluctance on the part of the banks of New York to be caught in the "Fed"?

Mr. REIERSON. In the first part of 1953, there was a reluctance.

Let me further add, in elaboration of my position—and this is set forth in the longer document—that I do not have the impression that in our lending operations we turned down any significant amount, or refused to make any significant amount, of loans for productive purposes under established lines of credit. I think the sort of loans that we probably were less anxious to make were loans for the purchase of assets or for the purchase of securities, which in the environment prevailing in the first part of 1953, I think, merited a restrictive policy.

Representative PATMAN. Now may I ask him one question there? Would you yield, Mr. Smith?

Mr. SMITH. Yes.

Representative PATMAN. About brokers' loans, haven't they increased in the last week or two?

Mr. REIERSON. Have they, Mr. Riefler?

Mr. RIEFLER. The figures are only available monthly. I do not think they have, though. I mean, I would not know, since January. I do not think there has been any significant increase.

Representative PATMAN. I had some figures here a while ago that indicated that they had gone up about $597 million.

Mr. RIEFLER. I think you are referring to a different type of borrower. The Treasury has just had a major refunding operation in which a great many securities exchanged have passed through the market. The total amount of securities was about $18 billion. Now, at a time like that——

Representative PATMAN. I am talking about the stock purchases.

Mr. RIEFLER. No; these loans would not be entirely for stock purchases.

Representative PATMAN. I know they would not be. I am asking you though about stock purchases. Have the loans increased for stock purchases?

Mr. RIEFLER. They have not recently. Well, somewhat since a year ago, but not much recently.

Representative PATMAN. Just slightly?

Mr. RIEFLER. Yes; in recent months.

Mr. ENSLEY. Mr. Riefler, in mid-December, there appeared what seemed to be an authoritative article in Business Week to the effect that the Federal Reserve had a formula or some mechanical device for increasing by a fairly fixed amount each year the money supplied. Would you comment on that?

Mr. RIEFLER. In the first place, it was not authoritative at all. It was as much of a surprise to me to see it, I suppose, as it was to anybody else.

Mr. REIERSON. That statement surprises me. I am surprised that you should have been surprised at that article.

Mr. RIEFLER. I do not know what you mean. I was completely caught off base by it.

I do not think that a rigid interpretation of the need for money in terms of percents has any significance. I do think that it is normal for the money supply to increase in a growing economy. As the economy grows in numbers and in wealth, there is an increase in the need for money. Anybody who is responsibly trying to project the economy's needs for money in terms of economic stability without inflation, but at high levels, cannot afford to apply only mechanical seasonal factors in making estimates. He must make some allowance also for growth in the economy.

On the other hand, what the appropriate ratio of the money supply to GNP or anything else is must always remain a matter to be judged very carefully by the behavior of the economy at the time.

Mr. SELTZER. How much would you say on the average, over a 10-year period, will the annual increase be for growth purposes? Five billion dollars a year?

Mr. RIEFLER. I would not think it would be an amount.

Representative PATMAN. Or in percentages.

Mr. RIEFLER. It would be a percent——

Representative PATMAN. Three or four percent?

Mr. REIFLER. Of something. Is GNP the right base, or is something else the right base? One would have to watch behavior.

Recently the active money supply seemed to be growing at 3 percent per annum without either excessive inflation or deflation. That is what you have to look at. The rate always has to be judged, I think, in terms of the behavior of the economy relative to the supply of money.

Mr. SELTZER. Would you say, Mr. Reifler, the credit restraints were a little too great in the early part of 1953?

Mr. REIFLER. I would say that the credit restraints were very close to right to maintain equilibrium until April, May, and June. The sudden tension in the money market, which we undertook to relieve as fast as it could be diagnosed, was not a result of any positive action of credit restraint or additional credit restraint on our part. It was something that suddenly emerged.

I think it emerged partly out of psychology, partly out of what you can always expect in a free market.

For example, in the capital market at that time, you suddenly had the injection of very large demands for long-term capital from the sales-finance companies. The amount raised was about $800 million in the first half of 1953 as against about $125 million in the first half of the preceding year.

I think that the size of that increased demand was a surprise. It arose out of the very rapid increase in consumer credit and from the fact that banks, in maintaining lines of credit to sales-finance companies, wanted to maintain certain ratios of subordinated funds to it.

I think that the sudden change in the Treasury position, when revenues did not come up to expectation, and it began to look as though the Treasury might have to borrow a great deal of money, more than the market had been expecting, had a very important bearing at that time on the situation, changing it from one that I would say represented an appropriate degree of restraint to one that tightened up very sharply. And it was that tightening that was moved on and eased almost immediately.

Mr. SELTZER. Would you say that that 3¼ percent issue of 30-year bonds had anything to do with it?

Mr. REIFLER. Yes, surely. At the time the issue was brought out, it was received very favorably, as was shown by the oversubscriptions. The big trouble, of course, was that so much of it got into the hands of nonpermanent holders, who began to liquidate very rapidly. By the time it was in the market a short time, it was obviously in difficulty.

Mr. SELTZER. Do you think the high rate put on that issue had any thing to do with the frightening of the market?

Mr. REIFLER. I think all the talk about the high rate did, yes.

Mr. MCKINLEY. I would like to say just a word or two on that, Professor.

It seems to me that in your paper, you have almost taken the position that the 3¼ rate threw the market down. Yet you will admit that the price of 3¼ very soon fell below par. Now, it seems to me that when a security is below par, it is not driving the market down.

Mr. SELTZER. Mr. Reifler just directed attention to the fact that there were a lot of speculative holders who dumped. That would drive the price below par temporarily.

Mr. MCKINLEY. You mean, hold it above par in the initial issue? It would not drive it below par. It seems to me that the 3¼ rate on that issue was not high enough, rather than, as you imply, it was too high. Had it been high enough in the situation then obtaining, the security would have remained at par or above. But it fell appreciably below.

Now, of course, at present the 3¼ rate looks very good. But the Treasury in offering that security at the time had to judge the market at the time, and it appears that they should not have attempted to offer a long-term security at 3¼ because that was not a high enough rate at the time.

Furthermore, it seems to me that you continue in your paper and attempt to expand that one circumstance into somewhat of a position that any long-term bond offering will be deflationary. I do not believe that that could be stated as a general rule. But if it could, I would like for you to explain why a long-term issue is necessarily deflationary versus an equal amount of short-term borrowing.

Mr. SELTZER. Naturally, the funds have to come from somewhere. If they come from individuals' cash, the individuals have less cash to put into other investments or for consumption. If they come from life-insurance companies and other institutional investors, they have less funds available for private investment. And since this is not new spending by the Government, but it is simply a refinancing of short-term debt, you have a net reduction in total spending. In that sense, it is deflationary.

Now, if the situation was that there was too much spending, public and private, in the aggregate, and you wanted to diminish this volume of spending, then a long-term issue was perfectly reasonable. But it still had this deflationary, or counterinflationary effect.

Mr. McKINLEY. My question is, would it have a more deflationary effect than an equivalent volume of short-term borrowing?

Mr. SELTZER. Surely.

Mr. McKINLEY. Why?

Mr. SELTZER. Because short-term securities are used as a substitute for cash. If there is not an adequate volume of short-term securities, then institutions and business firms need more cash.

Mr. SMITH. Actually, Mr. McKinley, didn't the 3¼ bonds sink below par because there was a general anticipation that if the Government adhered to the new monetary policy, or newly announced policy, they would have to pay even a higher rate?

Mr. McKINLEY. I do not believe so. I do not think that the market is that smart. I think that the reason that they sank below was that there was a very tight market at the time, and there were just not enough funds available for the Treasury to take even so small an amount as that out of the market.

Mr. SMITH. Now, I take the position that the smartest money minds in the market are the ones that deal with Government bonds.

Mr. McKINLEY. You feel that there was a withholding of cash, then a withholding of loanable funds so as to wait for a later period, and that let the price of governments fall?

Mr. SMITH. I think there was some anticipation, yes, sir, and selling of Government bonds in anticipation of that, and to take tax losses when they went down.

Chairman WOLCOTT. We are grateful to you for having given up your time and study. Let me repeat that in any respects where you desire to do it, you may extended and revise your remarks. That does not necessarily imply that you can only tie together the infinitives that might have been split. You may go further than that.

Tomorrow we shall meet in this room for a further discussion of the President's Economic Report, and we will have tomorrow various questions, I assume, because we will have representatives of economic and research groups here, including labor and agriculture and finance.

So if there is no objection, we will stand in recess until tomorrow morning at 10 o'clock.

Thank you very much.

(Whereupon, at 12:30 p. m., Tuesday, February 16, 1954, the committee recessed to reconvene at 10 a. m., Wednesday, February 17, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 17, 1954

Congress of the United States,
Joint Committee on the Economic Report,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:15 a. m. in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman); Senators Flanders and Carlson; Representatives Talle, Patman, and Bolling.

Also present: Grover W. Ensley, staff director; and John W. Lehman, clerk.

Chairman Wolcott. The committee will come to order. We have been undertaking quite an extensive study for the past 3 weeks on the economic outlook, predicated, of course, upon the President's Economic Report.

In addition to the administrative witnesses, we have had witnesses from the different facets of the economy, all of whom have presented very interesting papers and discussed the situation broadly and in many respects rather minutely.

Today, we have invited the heads of labor and agriculture and business research to appear on the panel. Some of the leaders who were invited to be here found it impossible to come.

We are glad to have with us this morning: Mr. Walter Reuther, president, CIO; Mr. W. P. Kennedy, president, Brotherhood of Railroad Trainmen; Mr. Roger Fleming, secretary-treasurer, American Farm Bureau Federation; and Mr. Meyer Kestnbaum, Chairman of the Board, Committee for Economic Development.

Mr. Reuther, we are glad to have you and the other panelists with us, and we will be very glad to have you proceed. We like to proceed by allowing the panelists to submit any remarks which they have, prepared or otherwise, without interruption, and then when the panelists are through with their statements, we will ask questions, of course, and the panelists may feel at liberty to ask each other questions.

Mr. Reuther.

STATEMENT OF WALTER REUTHER, PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. Reuther. Thank you, Mr. Chairman.

I appreciate this opportunity of appearing in behalf of the Congress of Industrial Organizations. I have prepared a formal statement which I should like to submit for the record, and then make certain verbal observations.

(The prepared statement submitted by Mr. Reuther follows:)

STATEMENT BY WALTER P. REUTHER, PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS

The CIO is pleased to have the opportunity to discuss the economic report and the economic state of the Union before this committee today. I must be perfectly frank and tell you that we were quite disappointed you could only allocate a total of 100 minutes to the 10 major organizations appearing this morning. On the one hand we have a 225-page report by the President, 5 days of testimony by administration defenders, a series of 5 or 6 technical panels, and then 10 minutes apiece for the 10 top economic groups in the Nation.

Speaking for my organization, let me say that our concern about the current economic situation is so strong, and our differences with the philosophy of the economic report so profound, that we hope you will proceed to hold fuller hearings in the very near future. Certainly your committee which was set up under the Employment Act to obtain the most comprehensive information available on our economy cannot begin to tap the experience and views of the organizations appearing here today in the limited time allotted.

During the past few weeks Americans who have had the temerity to express concern about the size of unemployment have been criticized by some people high in the councils of the present administration.

Mr. Chairman and members of the committee, if anyone honestly has doubts whether or not there already is serious suffering and distress in dozens of American communities as a result of rising unemployment, I wish he could sit in my office for just a few days. He might hear, as I did, the Dodge worker with 27 years of seniority, describe how tough things are when you have been laid off for over 8 weeks, with no end in sight. Or the doubter might read this report from our representative in Tennessee who describes how one of our CIO workers in an ordnance plant called up the telephone company to rip out his phone—the phone he could no longer afford now that he was struggling to keep his family going on $23 a week unemployment compensation as compared to his regular weekly salary of $70.

There may be genuine differences about methods of measuring the exact magnitude of unemployment today, but don't let any modern-day Merlin think he can exercise away the bitter reality of being without a job. The problem is real, it is here now, and it is inexcusable in a country like ours which is so blessed with abundant resources and productive capacity.

If worrying about unemployment makes me a prophet of gloom or one of the four horsemen, then I must plead guilty.

The facts are, Mr. Chairman, that we of the CIO are extremely optimistic about the future and the possibilities of the American economy. We have stated repeatedly that the American economy is freedom's greatest material asset. There is nothing fundamentally wrong with the American economy that an increase in the purchasing power in the hands of millions of American families won't cure.

No matter how long we may be on confidence, we shall continue to get into economic difficulties so long as the people are short on purchasing power.

Unfortunately, name-calling or political propaganda will not meet our problem nor will it put unemployed workers back to work. As I advised Mr. Leonard B. Hall, chairman of the Republican National Committee, the size of unemployment has continued to increase despite the intensity of Mr. Hall's name-calling campaign.

We of the CIO believe that full employment and full production are possible in peacetime if we demonstrate the good sense to gear our productive capacity and our developing technology to the practical challenge of satisfying the tremendous unfilled needs of the American people. We of the CIO reject the defeatist philosophy that would have us believe that depressions are inevitable.

An honest and objective review of America's business and financial journals will indicate clearly that the real prophets of doom and gloom are prominent members of the business community who believe that depressions are inevitable, some of whom have indicated that depressions are even desirable.

Depressions are man-made, and what man can make, he can also avoid making.

What disturbs us most is complacency and the political indifference to developing unemployment. While unemployment has reached sizable proportions, the most serious aspect of our current economic problem is not the size of the unemployment but rather the measure of complacency and indifference that is being camouflaged behind the smokescreen of political name-calling. We can drift to war or depression, but to win the peace and to sustain prosperity, labor, management, agriculture, and Government must all work together and plan together.

The theory that spring and the robins will bring prosperity, and that if we look the other way the bothersome problem of unemployment will go away, is both dangerous and unrealistic. We, of necessity, must have faith and confidence in the future of our national economy. Unfortunately, either unconsciously, or consciously for political reasons, too many people in positions of responsibility are confusing complacency with confidence. In approaching our current economic difficulties, we must avoid both panic on the one hand and a do-nothing attitude on the other. We must deal with the economic facts honestly and without partisanship. Achieving and maintaining full employment and full production in peacetime requires the cooperation of all economic groups in both political parties.

Any way we look at the employment and unemployment figures there were over 1 million fewer jobs this January than last. Add to this the fact that if our country had been making its normal economic growth there would have been 700,000 more jobs this year than last, to absorb the young workers coming into the labor market, and you begin to have some real measure of how far below a full employment target we really have slipped.

Just as important, too, as the actual unemployment count is the rate at which it has been increasing. The doubling of unemployment since October is every bit as significant as the absolute figure, and only a very minor part of this is seasonal. There are strong indications that the unemployment figure for February will be substantially higher than the January level.

Finally, to the losses from unemployment must be added the drop in the workweek during the past year, over 1½ hours per week in manufacturing for example, and the spread of part-time work.

The way in which this thing accumulates can be seen in the loss in total wage and salary payments in the past months. The Commerce Department has just reported that between August and December wages and salaries, on an annual, seasonally adjusted basis, fell nearly $5 billion, or better than $1 billion per month If this kind of movement is permitted to continue it is bound to feed on itself, with more unemployment, and then even lower payrolls.

It is possible that some slight leveling off in the downturn and in unemployment may occur this spring. We haven't overlooked this possibility in our estimate of the situation (I might note that in our own industry—automobiles—signs of such a pickup haven't materialized yet). At a time when they should be moving toward higher production (for example, Chevrolet has just cut back to a 4-day week); but no matter where we turn we are driven to the conclusion that, at best, seasonal upward forces will be weak, and there is strong probability of further sharp declines after we hit the summer—unless bold and effective action is taken now to halt this downward drift.

Of course, this unemployment problem isn't something to worry about for those who make their economic judgments by reading corporation profit and loss statements or by following the Dow Jones reports on new stock market highs. If you look at the economy through those glasses, things may look pretty rosy. It has never been our understanding that corporation and stock market reports can secure well-being of the people of the United States.

Perhaps we in the CIO have been foolish. We have taken seriously the mandate of the bipartisan Employment Act of 1946 that declares the Federal Government's responsibility to "maintain maximum employment, productive and purchasing power."

This is a simple and understandable objective to us. It means that since we have a growing labor force and steadily rising productivity, our economy has to expand each year, if we are to avoid growing unemployment.

It does not mean to us that when you find employment shrinking, and total production dropping that you call for a 1954 goal of "almost as good as 1953" as the administration has.

You simply cannot understand our almost unique American economic system unless you realize that our economy must grow and expand every year if unemployment is not to overtake us. The labor force increase and the rate of technological advance make this a fundamental necessity. Literally, when we aren't expanding in this country, we're falling back and unemployment is growing.

The attitude that 1954 is not bad because it is almost as good as 1953 reflects a lack of understanding of the dynamic characteristics of our free economy.

How does the Economic Report explain the drop of 1 million jobs and the fact that production in the fourth quarter of 1953 was no better than the fourth quarter of 1952 and actually $7 or $8 billion below last spring?

This is all described as a mere "corrective process" which will provide a more durable basis for business enterprise. Corrective process, indeed. What's corrective about the waste and misery of joblessness. I'd like to see the boys who wrote that one take the show on the road and explain to the million or more who've lost jobs just what's "corrective" about their status.

A look at the roster of names of those who talk about a corrective adjustment will indicate without question that none of these people are on the rolls of the unemployed, but instead you will find that they are getting their paychecks with regularity.

This same report tells us that as we slip down this year, it really won't be too bad, because we've been operating "at forced draft" and a decline would be a return to normal operations.

The plain truth is that the length of the average workweek for most workers last year was already below the 1951 and 1952 averages and indeed you have to go back to 1949 to get a lower average workweek than in 1953. I suppose by this "forced draft" standard, we might have to go down to 1949 levels with unemployment at 4 million before the author or authors of this Economic Report would be satisfied that things were "normal."

Perhaps the most glaring omission in this report is its refusal to look ahead and up, instead of backwards. If the purposes of the Employment Act are ever to be fulfilled, we've got to set new and higher targets each year in these reports and not look wistfully at the past. This the report fails to do.

In contrast to a program of expansion for "maximum employment, production, and purchasing power," the economic philosophy of this report and its sponsors is summed up in the handful of program recommendations in part III of the report. For after 75 pages of dodging and ducking, for those who have patience, the economic program for 1954 is presented. Unfortunately, even if you survive this weak-visioned document, you won't find much to cheer about in the recommendations, unless you're part of the upper income scale, say in the $10,000 or above class.

For example: If you are a worker whose wages are 75 cents an hour, there are stern words about how you must wait for a boost in the legal minimum lest that extra dollar or two you get in your daily pay envelope disrupt the Nation's economy.

But if you are a member of the less than 1 percent of American families who own the lion's share of all stock, there is a neat melon of $1.2 billion in tax cuts for you.

If you are an unemployed worker struggling along on benefits equal to one-third or less of your formerly weekly wage, around $23 or $24 per week, then you will be glad to learn that the report believes that the great majority of unemployment compensation beneficiaries ought to receive at least half their regular earnings. If you read carefully, however, no action is proposed. Instead, the very States that have permitted the benefits to deteriorate to their present inadequate levels are asked to raise them.

On the other hand, if you own or run a big corporation, there is good news—changes in tax depreciation laws which will mean a $1.5 billion saving in taxes by the third year of operation under the new tax law.

The basic economic philosophy of this report is clear and blunt. The way to help America economically is to pour it in on top, unleash new incentives for big business and trust to the old trickle-down theory.

If anyone thinks that I am exaggerating, look carefully at the most important economic proposals in the administration's program, the tax changes. You don't have to be an expert economist to know that tax changes are just about the quickest and surest way any Government can influence economic activity.

In the tax proposals in this report and in the President's tax message you have the administration's philosophy stated most baldly.

The President is supporting a tax reform bill which ultimately, after 3 years of operation, will amount to approximately $3.3 billion of tax relief.

Who will get the benefits from this? How will it stimulate the economy?

Judging on the basis of the estimates of the Republican-controlled Ways and Means Committee, some $3 billion of this tax of this package, or better than 90 percent will go to less than 1 percent or so of all American families, actually less than 400,000 families, who own the lion's share of corporation stock.

The breakdown on this is quite simple:

$1.2 billion in tax savings to stockholders

$1.55 billion in tax savings to corporations through new depreciation allowances (the same people who get the dividend tax savings own these corporations, of course)

$100 million in tax savings as a result of changes in loss-carryback provisions for corporations

$175 million in savings to corporations by reducing taxes on foreign earnings

The remaining tax relief measures consist of improved medical allowances, redefinition of dependency status, special deduction for working widows, etc., a series of small items totaling in all around $300 million or less than 10 percent of the package.

Actually, there is nothing in the bill in the way of general tax relief for the great majority of families. Even the $300 million in minor concessions is limited to special dependency cases, working widows, taxpayers with heavy medical deductions, etc.

I was shocked to read of the action of the Republican majority of the House Ways and Means Committee in turning down the motion to raise the personal income-tax exemption even $100 from its present level of $600.

Under any circumstances the glaring injustice of this kind of program should make its authors blush; when you stack it up against 1954's economic needs it would be absurd were it not so completely unsound.

Tax changes in 1954 must be made in full recognition of what the economic situation confronting the country is, and what must be done to reverse the downturn and get us back on the road of economic growth and expansion.

What really halted economic expansion in mid-1953? What started us downhill?

There is a great deal of discussion in the President's report about how we've been going through an inventory recession. Reading the public prints, I gather that many of the experts on your panels this week have talked about declining inventories, too.

Gentlemen, what are we really talking about when we say that in 1953 inventories proved to be too great, and eventually production fell off, as businessmen liquidated inventories?

Isn't this just a roundabout way of restating the basic fact that by mid-1953 by and large our capacity to produce had outrun our ability to consume?

Under pressure of special Government defense demand and accelerated tax certificates of necessity during the 3 years following the Korean outbreak, business investment in new plant and equipment boomed to new levels. Millions of tons of the new steel capacity, new automobile plants, new rubber plants, new aluminum mills, all have been added to the Nation's productive resources—and this addition is all to the good. It creates the potential for new and greater living standards.

It has been painfully apparent for at least a year, however, that as defense spending would begin to decline, and investment inevitably tapered off, unless consumption, the mass market, expanded, cutbacks in the operating rate of these great new productive equipment would be inevitable.

This is really what happened this last summer. Retailers and wholesalers saw the shipment from manufacturers beginning to pile up, and they cut their orders. In the space of 6 months the total national output rate was down $7 or $8 billion on an annual basis.

Clearly, then, if you want to turn this thing around you must see that major emphasis now must be placed on strengthening consumption. No one quarrels with the need for continued high levels of investment—we need that for continued growth. But our basic economic problem in 1954 simply is not one of furnishing some new, special incentives for business investment. Can anyone seriously believe that we'll overcome this downturn this way?

The General Motors Corp. recently announced a billion dollar expansion program. Such expansion is desirable, but the expansion of purchasing power in the present economic situation is even more desirable and more necessary. This is indicated by the present situation in the auto industry where the industry currently has a productive capacity of 8 million passenger cars a year, while the most optimistic people in the industry estimate that they will be able to find buyers for only 5 million new cars in 1954. It is a matter of simple arithmetic to see that with enough buyers for only 5 million new cars, and a productive capacity for 8 million, the need obviously is for more buyers and less a matter of productive capacity.

Why, the President's own report calls attention to the tremendously "strong financial position of business firms" which can "help to support a high level of investment expenditure." Business, according to the report, is loaded with liquid assets; as "the ratio of cash and Government security holdings to all current liabilities was substantially higher in mid-1953 than before the war." The report adds that "in 1953 this ratio was 53 percent, compared with 29 percent in 1929 and in 1936." There simply is no absence of financial resources if business, by and large, wants to go on expanding.

Look at this tax problem again. Since the Federal Government still has substantial revenue needs the choices in tax cuts are limited. Under existing circumstances, any sane and sound decision must be made in favor of aiming tax cuts to strengthen consumption.

It is for this reason that we think a realistic increase in the present $600 personal exemption should have top priority in a recovery program. A goal of $1,000 per person seems sound to us in the light of the great price increases which have taken place since the $600 exemption was originally instituted. This would mean added income in the hands of low- and middle-income families, which can stimulate consumption and help get industry moving upward again.

Every dollar in tax relief to low- and middle-income families results in the expansion of high velocity purchasing power dollars, results in expanded demand and increased job opportunities.

We are also firmly convinced that the excise tax cuts slated for April 1 should proceed on schedule. These cuts on tobacco, automobiles, and other products will also help strengthen consumption. Moreover, as soon as possible we should eliminate all other excise taxes which hamper or restrict consumption.

We strongly urge this committee in its report to advocate this kind of a tax program to strengthen basic consumption forces, rather than dissipate tax relief on a fraction of American families with high incomes already, or on large corporations already heavy with liquid assets.

A realistic and equitable tax program must be directed toward raising the standards of living of millions of American families who have too little purchasing power, rather than raising the standards of luxury of wealthy income families who already have more purchasing power than they need.

Raise the minimum wage.—By the same token, we think the administration's decision to postpone action on increasing the minimum wage is a serious mistake. We find this particularly deplorable in light of Secretary Mitchell's pledge to raise the minimums made before both the CIO Convention and the UAW Full Employment Conference last fall.

Don't be misled by the report's economic rationalization for no action on minimum wages now. These arguments about how raising the minimum would lead to unemployment and inflation were made when the Fair Labor Standards Act was first passed in 1938, and again when it was amended in 1949. Each time this same school of thought warned about inflation and unemployment which would flow from the imposition of a higher minimum.

The truth of the matter is that people who write about the minimum wage in this way are always opposed to it. They don't understand it and can always find reasons why it shouldn't be raised. I venture to predict, for example, that if we get into any sort of future inflation the rationalizers of inaction will decide a boost in the minimum then would be inflationary.

A study of the actual impact of the increased minimum wage done by the Secretary of Labor in his 1950 annual report shows that none of the charges made about the supposed effects of the higher minimum could be sustained.

Looking back to 1938 and 1949, the higher minimums were actually harbingers of recovery from recession in those years.

The millions of American families with incomes below $3,000 per year constitute the greatest untapped market for goods of all types. Raising the minimum wage from the present 75 cents per hour to the more realistic $1.25 will be a major step in increasing the buying power of these families. Additional dollars in their hands would be high-velocity dollars, expanding markets and creating jobs in other industries.

Unemployment compensation.—We agree with this report that "Unemployment compensation is a valuable first line of defense against recession." Having uttered this fine opening statement, however, the report again lapses into its usual pattern of inaction, so typical of its treatment of matters which will help sustain consumption. The President recognizes that present unemployment compensation benefits are very inadequate; but his remedy consists of exhorting the States to raise the levels. These are the very States which have permitted these benefits to reach their present inadequate state. Besides, only 14 State legislatures are even scheduled to meet this year.

In my own State of Michigan, members of the President's own party have just introduced amendments to the State unemployment compensation law. These changes don't even begin to meet the standards suggested by the President. We trust that the administration will not wait on all 48 States before it faces up to the fact that real changes in the unemployment compensation system must involve Federal action.

Basic improvements in the unemployment compensation system are long overdue. We, therefore, urge the immediate amendment of the present unemployment compensation law to assure minimum Federal standards which will provide increases in the amount and duration of benefits. CIO believes this law should scale benefits payments to provide an unemployed worker with no dependents, not less than 65 percent of his average weekly wage with a duration up to 30 weeks. Additional allowances should be provided for dependents. Federal standards law should also do something about preventing the unfair administration disqualifications that have been raised in many States against workers who are really entitled to benefits. For although the President has asked for broader coverage of unemployment compensation, State after State, in recent years, has enacted new administrative barriers against workers entitled to benefits.

We also should make provision to permit States which are hard hit by unemployment and threatened with exhaustion of funds to be able to draw on grants from the Federal Government.

Through a program of improved standards and grants to States where necessary, Congress can protect family living standards, bolster purchasing power, and strengthen the unemployment insurance system.

Housing.—We have always believed, along with other groups, in the need for a growing, residential construction industry. Here, again, however, the tone of the report itself is disappointing, as is the legislation just submitted to Congress.

Obviously, an expanded construction program, especially residential construction, can be a powerful force in giving the economy leverage upward at a time when some other elements are slackening. Yet, the report is content to talk of continuing the number of housing starts "close to that of 1953."

Gentlemen, this is a big, powerful country. We have a growing population, a rising birthrate, and yet some of us still think of a housing industry producing only 1 million new units or so a year. Way back in 1925, when our national income wasn't half as large, when our population was 45 million less than today, the housing industry produced 937,000 new units.

We must set our sights on a goal of around 2 million units a year if we are ever going to wipe out slums and meet the great backlog of shelter needs in this country.

An expanded housing goal should also include an increase in new public housing units. President Eisenhower has recommended construction of 35,000 public housing units a year in each of the next 4 years. Even the late Senator Taft in 1949 helped put through the legislation to build 135,000 public housing units in a normal year, with provision to build as many as 200,000 units per year as a counterdepression measure.

A really adequate housing law and expanding construction activity would go a long way to help us meet the full employment potential of our economy.

Improved social security.—Basic improvement in the old-age and survivors insurance program is one of the quickest ways to put money in the hands of a large section of the population which will certainly spend virtually all of this increased income. The CIO supports the Lehman-Dingell bill to expand OASI coverage, add permanent and temporary disability insurance, and increase monthly payments to a maximum of $200 a month. The Eisenhower administration has proposed improvements in old-age and survivors insurance, which are good as far as they go. They would extend coverage and raise benefits, though not to the degree necessary for adequate security. Moreover, the Presidential proposals make no provision for payment of benefits to workers who become temporarily or permanently disabled and suffer loss of current income.

There are about 5,300,000 people receiving pensions and old-age assistance under the Social Security Act. As of December 1952, the pensions averaged $49.25 a month and the assistance $48.82 a month—little over $11 a week in both cases. For every increase of $10 a week in the payments they receive, $2.7 billion a year would be added to consumer purchasing power immediately. Proportionate increases in related benefits paid to wives and survivors of those covered by the pension provisions of the law would add still more buying power. More purchasing power in the hands of those too old to work means more employment for younger people.

Farm program.—The present recession has been underway for well over a year in the farm community and the drop in farm income has already had a sharp effect on the purchases of agricultural machinery, trucks, and many consumer durables. In turn, this is causing serious unemployment in industrial centers.

We believe it is essential to prevent the present farm recession from turning into a wholesale depression; the farm programs of price supports, marketing storage, rural electrification and telephones, low-cost credit and conservation, and other farm practices should be improved.

Unfortunately, the Eisenhower-Benson farm program will weaken existing agricultural legislation rather than strengthen it. The President and Secretary Benson have introduced proposals for flexible supports of basic crops. This program ignores the needs of the family farmer in the United States. It has the support of only large business-type farm groups. We are opposed to it.

There is an intimate relationship between farm prosperity and city prosperity. A farm-led depression inevitably has its effect upon the city and town. By the same token, CIO continues to state that legislative programs in and of themselves will not protect the American farmer. Full employment at high wages is the soundest basis for prosperity of all—farms, workers, professional and business people alike.

Pending the preparation of genuinely improved legislation which will strengthen the economic position of the family farmer and increase the consumption of farm products, we believe the Congress must continue the present support programs.

Credit policy to protect small and middle size business and for economic expansion.—One of the sorriest series of economic actions attributable to the new Republican administration has been its handling of credit policy. The basic drive of the administration has been in the direction of higher interest rates and elimination of certain valuable Government credit sources. Typical of its acts have been the authorized increases in VA and FHA housing interest rates and the dismantling of the Reconstruction Finance Corporation.

CIO has condemned the increase in interest rates on federally guaranteed housing loans. We believe such increases should be revoked to help increase the demand for residential housing.

Economic experience during the past 20 years demonstrated the continuing need for a Federal credit agency such as the Reconstruction Finance Corporation, which stands ready to help with special depression lending programs, special defense loans and loans to many State and local bodies seeking to complete public works.

CIO calls for the reestablishment of the RFC or a similar agency to meet those legitimate credit needs of businesses and State and local governments which private banks fail to provide. There must be no delay in this action, if we are to be prepared to weather any recession.

Public works.—Finally, as another essential feature of a recovery and full employment program, CIO believes that Congress should take the lead in establishing a well-planned system of public works in cooperation with State and local communities which can alleviate many pressing social needs and also act as an effective counter-depression instrument. The public need for additional schoolrooms, hospital beds, roads, and other public buildings is an almost inexhaustible source of work.

This report lays great stress on expanding public works, when and if the President decides we have moved into a depression. Unfortunately, however, the administration has failed to recommend legislation to make public works a truly workable economic instrument to halt a downturn.

For example: Large numbers of State and local governments are confronted with serious financial obstacles when it comes to expanding public works. In many cases there are statutory limits on the amount of and types of borrowing these bodies can undertake—and in numerous instances these limits have been reached or exceeded. Some local constitutions require elaborate referendum voting procedures to get new public construction projects off the ground.

I noticed that only last week your committee heard testimony from a number of local Government officials which pointed up the shortcomings of the public works sections of the economic report. Robert Moses, New York City construction coordinator, particularly drove home the idea that the Federal Government wasn't ready with adequate plans or appropriations. As you know, Mr. Moses also stressed the necessity for some public works legislation in this session of Congress.

The report simply fails to come to grips with the hard and inescapable fact that the financial limitations on most cities and States make it imperative for the Federal Government to provide leadership with plans and money for public works expansion. In fact the report obviously evades this basic question by noting that, if necessary, current State and local outlays on public works might be expanded if financial arrangements were adequate.

Mr. Clarence Elliott, city manager of Kalamazoo, Mich., stated to your committee that cities could not maintain even their present level of spending, if a recession occurred. We are impressed with Mr. Moses' comment that even interest-free loans would not accomplish the desired result.

It has been estimated there is a backlog of from $60 to $90 billion of needed public works to be completed on the State and local level alone. In the light of these vast unfilled social and economic needs, and the additional backlog of Federal programs, public works can provide great leverage in halting a downturn and providing a foundation for full employment.

I have discussed with you today some of the specific things the CIO believes are wrong with the President's economic report. But these criticisms added together cannot by themselves convey my basic unhappiness with it.

What disturbs me most is the underlying lack of a direction in the report. Where is the imagination and real hope for a bigger and more prosperous America? Certainly we will not get it by meek acceptance of 1954 projections which are lower than last year's achievements.

The authors and supporters of the report are the ones who really lack confidence in the future.

We of CIO are full of hope for the future. In our 18 years of existence, the real income of our people has more than doubled. We have seen millions of jobs added. This is the kind of progress our people deserve and expect in the years to come.

Labor will continue to make its contribution toward these objectives. It looks to business and Government to do their part. We are convinced that a more prosperous and growing economy is not only possible but necessary. This is the time when complacency must give way to confidence not supported by political platitudes but reinforced by practical and tangible action.

Mr. Reuther. We of the CIO believe that the President's Economic Report deals with the most fundamental unsolved problem in our free society, and that is the question as to how we can deal with our economic resources and our productive capacity to assure full employment and full production in peacetime. We of the CIO believe that it is possible.

We have unlimited faith and confidence in the future of our great economy, and we believe that if we can find the way to gear our productive capacity to the tremendous unfilled needs of people in peacetime there need be no unemployment, and we can all enjoy full employment, full production, and prosperity.

Now, the CIO is obviously concerned about current economic developments. The report of the Secretary of Commerce, released this morning, indicates that the Secretary of Commerce has had to revise upward his figures on unemployment, and he now says that there are 3,087,000, which means that we have got almost 5 percent of unemployment based upon these figures. These figures, Mr. Chairman, in the opinion of the CIO, are still an understatement of the problem, because there are people in our labor force who are not included in these figures.

We of the CIO think that unemployment is somewhere between 3,500,000 and 3,750,000.

When you take the overall figures, you get one look at the problem. But if you take a city like Detroit, we have 121,000 unemployed workers in Detroit. One out of every twelve workers is unemployed. The

Chrysler Corp. has laid off 41,000 workers in Detroit; 27,000 workers of that corporation who are unemployed have seniority, so they are not just temporary people who floated in for a couple of weeks.

In Michigan we have 200,000 people unemployed. In your own city of Port Huron, Mr. Chairman, 1 out of 11 people is unemployed; 9.2 percent is the unemployment in Port Huron, Mich.

So this is a very serious matter. According to this morning's Journal of Commerce, the assistant to the Chairman of the Federal Reserve Board told this committee yesterday that the drop in industrial production from last July to February has been about 10 percent, which he said is a fall as large as the entire decline of the 1948–49 recession. This is as much of a decline as in the 1948–49 recession, but it has taken place in a shorter period of time.

Now, I believe that these are hard, cold economic facts that will not go away just by ignoring them, and that we have to deal with them.

Now, the steel industry is operating at 74 percent of capacity. Mr. Fairless, president of United States Steel, indicates that United States Steel, which is in a more favored position, will continue to operate around 80 percent of capacity for the first 6 months of 1954.

We believe that while the unemployment problem is serious, it is not the most serious aspect of our problem. We believe, and we believe this sincerely, that the most serious aspect of our problem is the political indifference, the kind of calloused complacency which we think certain people in responsibility are taking toward this unemployment problem.

Now, this complacency is understandable. All the people who say that there is no problem are getting their paychecks every week. Their wives and their children are not being deprived of the things they need, and it is easy for them to be optimistic. But for the millions of workers who are unemployed, they can see that the economic situation is not optimistic.

What we have had in the last several weeks is a high-octane jet-propelled name-calling contest. Instead of dealing with the facts, people believe that you can call names and solve unemployment. I have been on the receiving end of some of that, and that does not bother me. But what bothers me is that people do not understand, as I advised Mr. Hall, the chairman of the Republican National Committee, that his intensive name-calling contest has not put one unemployed worker back to work anywhere in the country; but what we need to do is to recognize the economic facts and find a way to cooperate to meet the problem.

Labor, management, government, agriculture, and people in every segment of our economy have got to work together in peacetime to insure full employment and full production and prosperity for everyone just as we worked together in wartime to meet the threat to our Nation.

Instead of that kind of teamwork and cooperation, we have got these name-calling contests.

I am supposed to be one of the "four horsemen." I am supposed to be leading the parade. But I could show you documents that prove conclusively that it was not the labor people who talked about "gloom and doom," that we have said all along that there is no need of a depression, that we reject a defeatist philosophy that depressions are inevitable. We think they are manmade, and what man can make, he can avoid making.

I would like to call your attention, and I hope Mr. Hall will read this someday, to this issue of Business Week dated August 15, 1953, and the headline is, "Everybody expects a recession; businessmen are sure there is going to be one starting sometime next year."

Now, the people who put this publication out are not the people in the CIO. This is put out by the McGraw-Hill Publishing Co., New York City. And yet they said that a survey of businessmen last summer indicated that overwhelmingly the businessmen said that a depression or recession was on the way.

Some of the businessmen said that it was only inevitable, but it was desirable. Now, we disagree with that.

Here is Fortune Magazine, back in 1952. They projected 2½ million unemployed minimum, 8 to 10 million maximum, with an average, they figured, of 5 million unemployed.

Therefore, instead of having a name-calling contest, Mr. Chairman, we believe we ought to tighten our belts and go to work on this problem and find an answer to it.

We disagree with the basic philosophy expressed in the President's Economic Report. That philosophy would have the American people believe that 1954 is really not so bad because it is almost as good as 1953. That bothers us, because that reflects a failure to understand the basic dynamic qualities of our free economy.

The year 1954 cannot be "almost as good as 1953" and still meet our needs. It must be better than 1953. And 1955 must be better than 1954, and 1956 must be better than 1955, because we are dealing with a dynamic economy that either expands and goes forward or contracts and slides backward.

Therefore, to measure 1954 by saying it is almost as good as 1953 misses an understanding of the kind of economy that we have. It also makes no allowance for the fact that 700,000 new people will come into our labor force, and therefore this is not something that you can meet by saying, "Well, we will do almost as well as last year." You have got to do better than last year.

We think that that indicates a philosophy not based upon economic realities of life or an understanding of our economy.

Now, there is this philosophy that if you will look the other way, spring and the robbins will solve our problems. But spring and the robins will not solve this problem unless we do something about it. And we can do things about it.

There is a great deal of talk about confidence. I have unlimited confidence in the future of the American economy, providing we act intelligently as a nation, but I do not have confidence if people confuse confidence with complacency.

There is the point of view going around that if you are completely complacent, if you are unwilling to recognize the fact and do nothing about the problem, that proves that you have the largest measure of confidence. But if you want to recognize the fact and insist upon some positive and constructive steps being taken to meet the problem, then you are "a prophet of doom and gloom."

Now, nothing could be more dishonest than that, because the only way you can solve a problem is to recognize it, and then deal with it honestly and realistically.

The President's report would have us believe that we are going through an adjustment period, a corrective period, a rolling adjustment, and many other fancy new words that have been introduced into our vocabulary. Now, what we are going through is not an inventory adjustment. Why did the inventories pile up? They piled up because of the imbalance between purchasing power and productive power. We were making more of the good things of life than the people had the money to buy. And that is where the accumulated inventories came. And to say that now we are going through a corrective period in which we shake out the inventories and then we will get back to normal—why, what assurance do we have that if the inventories accumulated in the first place, they will not accumulate again, as long as the inbalance between purchasing power and productive power exists?

Now, you have this trickle-down theory which is fundamentally the theory around which the administration built is legislative program in the economic field. It is built upon the concept that if you will give the people on top of the economic pyramid greater incentive, greater tax relief, and more and more of the economic resources of our country, they, as the job givers and the job creators, will somehow facilitate the economic trickle-down process and the millions of people down below will be better off.

That theory is based upon the assumption that prosperity can be built from the top down when the economic realities of life requires that the prosperity of our free economy be built from the bottom up, that mass productive power, of necessity, must be matched by mass purchasing power. Therefore, what we need to do is to take steps to broaden the purchasing power base of our economy.

There is nothing wrong with our free economy. We of the CIO have said that our economy is freedom's greatest material asset. There is nothing wrong with it that an expansion of purchasing power in the hands of millions of American families will not cure.

Let us take the auto industry, for example. General Motors Corp. gets $400 million in tax relief out of the termination of the excess profits tax according to the U. S. News of October 30, 1953. They will get further tremendous tax relief based upon the recommendations of the House Ways and Means Committee.

Does the General Motors Corp. need tax relief? It is expanding. We are in favor of expanding, because we believe in the economies of abundance, and you can only have more things if you create more things. There are no economic Santa Clauses in our world.

But let us look at the economics of the auto industry. The industry as of this hour has a productive capacity of 8 million cars a year. But the most optimistic automobile salesmen, the most optimistic automobile manufacturer, thinks that if we can find 5 million customers this year, we will be doing well, so that the imbalance in the auto industry is the difference between 5 million customers and 8 million productive capacity.

Now, in that situation do we need more productive capacity or do we need more consumers?

My little girl understands that.

General Motors, if they spend a billion dollars for new equipment, will not be expanding capacity. They will be modernizing and making existing capacity more efficient and they will lay off more workers by the introduction of electronics and automatics to their production lines. So they are not going to make more consumers. They are going to make less consumers by laying off more workers.

Now, the only automobile company in our business which is not worrying about a lack of customers in 1954 as the Cadillac Motorcar Co. They alone are going to expand production, because the people in the high-income brackets are getting the relief instead of the people in the low-income brackets.

We just do not think that makes good economic sense if we are going to deal with this problem.

Now, there is plenty of work in America, in our belief. There is just no need for unemployment. There is enough work in America to keep every able-bodied man and woman working for the next 25 years making the things that we need to make life happier and richer and more secure and to give millions of American families who are currently denied the necessities for decent, modern living, the things that they need and the things to which they are entitled.

The economic report talks about a million houses. Yet in 1925, with smaller economic resources, with a smaller population, we made 937,000 new housing starts. We need 2 million new houses every year, and not 1 million, to wipe out the slums and the shacks in America and give people decent housing and healthy, wholesome neighborhoods.

Our school situation is scandalous. There is enough work there to keep millions of Americans busy overcoming the educational deficits that we have in every community in America, north, south, east, and west. We need 860,000 hospital beds. There is a big job.

Roads? We have $40 billion worth of roadwork, and parking facilities. Then there are public works and flood control and the St. Lawrence seaway and many other needed public-works projects.

There is plenty of work, but you will not have a full employment economy until we recognize the fact that we have to balance purchasing power with productive power. And what worries us is that the emphasis in Washington is being shifted toward broadening the income of the people who do not need it and giving a few crumbs to the people who need their purchasing power expanded a great deal.

Therefore, Mr. Chairman, the CIO would like to recommend the step that we think can give you the most immediate and broadest relieve in this situation, which is on the tax front. We believe that Congress ought to move without delay to increase the personal exemption. We think an increase from $600 to $800 this year ought to be the first step and to $1,000 next year. That will place billions of high-velocity purchasing power dollars into the people who need those dollars. They will not save them. They will not put them in salt brine or mothballs. They will put them on the counters, and that will create a demand, and that demand will reflect itself in employment.

Now, what is happening, in our opinion, is that you are giving tax relief to corporations and wealthy income groups who do not need it, and you are increasing their standards of luxury at the expense of trying to raise the standard of living of millions of low and middle income families in America. We urge serious consideration, as the first step, to shifting the tax relief to the people who need it by increasing the personal exemptions from $600 to $800 as the first step.

We think also you ought to take steps to raise the minimum wage to $1.25. Over 5 million American families are getting less than $1,000 per year income. They cannot live in decency, and they certainly cannot contribute to the health and the strength of the American economy as consumers.

We think unemployment compensation ought to be raised. The President's report says a lot of very fine words, but you cannot pay your rent with pious words, nor can you pay the doctor nor can you buy the necessities of life.

We think we need aggressive action at the Federal level to raise these inadequate unemployment compensation standards to give people the security of protection they need during periods of unemployment, through no fault of their own.

In Michigan, for example, in 1938, when unemployment compensation went into effect, it was 53 percent of the average wage. It is now 31 percent. And the Republican legislature there, that is willing to ride the President's coattails when it is politically convenient, ought to be willing to follow his leadership and try to make some progress in this important field.

We think you ought to raise social-security benefits to $200 a month, for the old people of our country. They also will not save the money they get for a rainy day. It will be high-velocity purchasing-power money. And that will reflect itself in our economy, and expand the purchasing-power base, and create demand and employment opportunities.

We think the farm program has to be looked at in terms of the needs of small farmers, of dirt farmers, because they are the people who need the help, and we do not believe you can have prosperity in the cities excepting as you have prosperity on the farm, because prosperity between the workers, city folks, and country folks, is inseparably woven together.

We think that the public-works program ought to be gotten out of the mothballs. We are told in the President's report——

Senator FLANDERS. Excuse me just one moment.

Are you making any recommendations as to farm policy?

Mr. REUTHER. We are in favor, Senator Flanders, of a continuation of the price supports until such time as a better way can be found for assuring prosperity to the farmers and give the consumers of the farm products the kind of equity they are entitled to. We do not think the farm program is perfect. We think you ought to continue the price support until a better way of meeting this problem can be worked out. We believe, and we believe this sincerely, that there is no conflict between the economic interest of working farmers and working people. We think they are in the same boat. We think we cannot have prosperity either place unless we have prosperity both places.

We know what happened in 1929 and 1930 and 1931. We lost our jobs and the farmers lost their farms and we lost our homes, and if it happens again we will all lose our freedom.

So we support the present price program until such time as this think can be worked out and do a more effective job all the way around.

We think on the public works program that there are a great many things the Federal Government needs to do. The Federal Government needs to take the initiative in helping States and communities launch needed public works projects at their levels. There is a tremendous job to be done.

We of the CIO are concerned about the drift, the lack of aggressive and realistic leadership. We believe, however, that there is nothing wrong that we cannot correct if we act intelligently and sensibly and cooperatively. This is not a matter of partisan politics. This is not a matter of economic pressure groups working one against the other. This is a matter of every American, regardless of political affiliation, regardless of economic status, regardless of where you come from, working together in peacetime to meet this challenge as we worked together in wartime. And we believe that if we can achieve that degree of cooperation between all of our economic groups, between people of all political groups, it is possible to achieve full employment and full production and prosperity in peacetime, and America can go on to greater achievements in terms of human security and human happiness and human dignity.

Thank you.

Chairman WOLCOTT. Thank you, Mr. Reuther.

We are also glad to have with us Mr. W. P. Kennedy, president of the Brotherhood of Railroad Trainmen.

STATEMENT OF W. P. KENNEDY, PRESIDENT, BROTHERHOOD OF RAILROAD TRAINMEN

Mr. KENNEDY. Mr. Chairman and gentlemen, first I want to express my appreciation for this kind invitation that I received to meet with you here today and give you my views regarding the Economic Report of the President and its effect on the men that I represent.

As you know, I represent the Brotherhood of Railroad Trainmen, one of the oldest labor organizations in America, and we have membership in every city and every State, and in Canada. Wherever you find a railroad, you will find members of the brotherhood working in all classes of train service, such as conductors, trainmen, yardmen, dining-car stewards, yardmasters, and the men that operate the trains of the country.

During the past 2 months, I have had an opportunity to travel to a considerable extent, particularly through the eastern portion of the United States and through the central portion of the United States. When I received your invitation to come here, I did not prepare a statement. However, if it is the desire of your committee that one be prepared, I will be glad to do it before I leave Washington for your future review.

(The prepared statement referred to follows:)

STATEMENT OF W. P. KENNEDY, PRESIDENT, BROTHERHOOD OF RAILROAD TRAINMEN

The recent President's Economic Report leaves considerable doubt as to the readiness of the administration to take corrective action soon enough to halt rising unemployment. I have seen the effects of such unemployment on a recent trip to industrial centers in the East, Northeast, and parts of the Middle West. I recommend that prompt remedial action be taken to eliminate the unemployment that exists in the railroad and other industries and to prevent further serious declines in industry, business, and agriculture.

I believe the Government, now and in the future, must set a goal for industrial and business activity in the ensuing year that will provide a job for every person who is able and desires to work. The recent Economic Report of the President falls short of establishing such an objective. The report leaves the impression that the problem of expanding the rate of economic activity is to be left primarily to the voluntary actions of the business community. The businessmen and business groups of the country, however, well-intentioned, must of necessity act as individuals, and their uncoordinated action cannot be relied on to avoid want and hardship for millions of American citizens. While President Eisenhower's statement of February 17 promising Government action if economic activity continues to slacken is reassuring, I believe that remedial steps should be taken at once. Accordingly, I submit a series of recommendations on action to be taken by the Government under the general authority of the Employment Act and other statutes. Some of these recommendations will require congressional action which is a further reason for speedy action in initiating these requests.

As the representative of a labor organization I wish to point out to the committee the unmistakable advantages of meeting the underlying principles of the Employment Act that there shall be a job opportunity for everyone seeking gainful employment. The effective implementation by the Government of such an objective would serve as a guide to business and consumers in planning their activities for the future. For the wage earner it would eliminate much uncertainty and enable him to plan for the future of himself and his family free of the dread prospect of unemployment. And, of course, it would certainly increase the wealth of the country and raise living standards generally. Last, but certainly not least, it would demonstrate that this country did not have to go to war to have prosperity and therefore provide a new goal toward which all civilized nations could strive.

Before listing the action which I believe should be taken at this time, I wish to comment on one of the most important contributions being made to the future economic growth and prosperity of this country. I refer to the work of the Joint Congressional Committee on the President's Economic Report. The practice of annual hearings held by the committee in which it seeks a cross section of expert opinion from business, labor, agricultural and academic leaders is highly commendable and very useful in providing the information for the formulation of national policy on major economic problems. The committee staff has prepared such outstanding publications as the memorandum on the Economic Outlook (July 5, 1952) and the Sustaining Forces Ahead (December 4, 1952). These reports provide concrete evidence of the important contribution which the Employment Act of 1946 is making to the economic health of the country.

RECOMMENDATIONS

I. Because preservation of living standards through maintenance of purchasing power is a necessary weapon against recession I recommend:

(1) Revision of the Federal tax system to lessen the burden on small income groups.

(2) Immediate increase in exemptions in Federal personal income tax to $800 as a means of increasing consumption by lower income receivers.

(3) Closing of loopholes in Federal personal and income taxes to gain about $5 billion in revenue from higher income groups.

(4) Elimination of the 15-percent excise on railroad passenger travel.

(5) Maintenance of purchasing power of workers through a repeal of the Taft-Hartley Act thus insuring strong unions, able to bargain on equal terms with employers.

(6) Adoption of a higher national minimum wage to eliminate low-living standards and increase ability of workers to purchase goods thus increasing mass purchasing power.

(7) Increase of unemployment compensation and pension payments to keep up mass purchasing power when layoffs and retirement occurs.

(8) Expansion of the public housing program for both middle income and low-income receivers including a slum-clearance program that will rehabilitate the blighted area of cities.

II. Because prices need to be reduced to bring more consumers into the market I recommend:

(1) Vigorous enforcement of the antitrust laws to curb monopolistic price policies.

(2) Investigation of price spreads between producer and consumer.

(3) Progressive leadership by Government and business to bring about lower prices to consumers.

III. Because public spending is required to offset declines in spending by private business organizations, I recommend a greatly accelerated program of Government expenditures to include the following:

(1) Sufficient appropriations for immediate preparation of plans for emergency public works.

(2) Establishment of governmental machinery to set in motion a vast public-works program on a local, State, and National level.

(3) Construction of public schools, hospitals, roads, and other public projects sufficient to remove the shortages in these fields. A staff report (December 1952) of the Joint Committee on the Economic Report contains an inventory of the current and prospective needs of public construction in schools, hospitals, and highways.

(4) Acceleration of programs of resources conservation and regional development and continuation of the development of the public power program in such river basins as the Missouri, Columbia, upper Colorado, and other similar areas.

IV. Because unchecked recession may injure small business I recommend:

(1) Establishment of a permanent small-business agency that would provide credit to small enterprise at low interest rates and otherwise promote the stability and expansion of small business.

(2) Revision of corporation income tax to give encouragement to small business.

(3) Use of low discount rates and stabilization of low interest rates by the Federal Reserve Board and the Treasury to encourage business expansion to a level that would maintain full employment.

V. Because the agricultural sector of our economy is entitled to the same high living standards as the other sectors and because the prosperity of agriculture is essential to a general high level of economic activity, I recommend:

(1) Adoption of a farm-price-support program that will maintain the income of farmers at the same time that food prices are kept to a level where consumers can obtain the commodities necessary to an adequate standard of living.

Chairman Wolcott. I might say, Mr. Kennedy, and to the rest of the panel, that we will be glad to have you do that if you care to. Perhaps it will not be necessary. But in the revision of your remarks, each of you will have an opportunity to extend your remarks on any germane subject as you see fit.

Mr. Kennedy. Thank you. I will be glad to comply with your request.

During this trip that I just completed throughout this portion of the country, I have certainly become alarmed over the widespread unemployment, not only in the railroad industry but in many of the other industries that these railroads serve. That is particularly true of the automobile industry in the larger centers such as Detroit, Toledo, and Cleveland, but it is also true in the steel industry and in many others of the heavy industries throughout this portion of the country.

Of these 3 million workers that the Department of Commerce stated are now unemployed, a large group of these workers are railroadmen. They come from all of the branches of the railroad industry. And within that group are a great many thousands of men in train and yard service.

I want to point out to you that when you review unemployment records such as we find issued today, that does not give you the complete picture, because in addition to these thousands of railroad workers that are unemployed, we have many more thousands of them that are working but 2, 3, or 4 days per week. Therefore, their wages and their weekly incomes have been seriously curtailed.

That is particularly true in the States where the railroadmen serve the coal mines, and we find that these workers now are confined almost to a 3-day workweek.

Just last Sunday I had an opportunity of stopping at Brownsville, Pa., which is the headquarters of the Monongahela Railroad, and it is in the coal section, or country, of Pennsylvania, and I found that of some 300 of our members in that particular small city of Pennsylvania on that railroad, 35 percent of these men have now been relieved from the service, as there is not sufficient business to permit them to work even 1 day per week.

Now, that, of course, does not mean that these men that have been laid off are just new recruits into the railroad industry. Many of these men have worked for the railroad for 2, 3, 5, and up to 8 years, and, of course, they have never experienced unemployment until this tragic shock came to them, and they find themselves now unemployed with nothing to look forward to but unemployment-insurance benefits, and when that has been absorbed, the breadlines, which is certainly a very gloomy picture for a newly married couple or even a single man to look forward to.

Now, there have been statements indicating through the press and otherwise that a large percentage of the railroad workers are enjoying overtime. Well, that statement is not true. Overtime for hourly paid workers in the railroad industry is practically gone. A very small percentage of that is left.

So along with this tragic picture, follow many other things that are a little difficult to explain. Here is the individual that has now lost his job. Many of these men are men who have just come back from World War II or the Korean war. They have never experienced unemployment. They had a reason to believe that this democracy which they were glad to give up their life for in the battle overseas was strong enough and efficient enough and capable enough to give them full employment, and it is a tragic period in their life when they find that the Government that they had so much faith in and the economy that they felt could not crumble is now unable to give them the living that they are entitled to.

This will eventually, of course, mean the loss of their homes. Many of them, of course, have purchased new homes, and they have substantial mortgages on those homes, and are unable to pay for the homes unless there is some credit or some relief that comes along from the Government or some other agency.

Of course, that means another tragic thing that is going to fall on the shoulders of these workers. The automobiles that they purchased, now they find that they are unable to pay for them, and as I talked with some of these people in Pennsylvania on my trip through there, the automobile companies now do not know what to do, because with the payments that have been made on the automobile, the balance that is left probably is greater than they could purchase a similar automobile for that is now overstuffing the parking lots of the town.

So it not only creates a problem for the individual who cannot pay, but it creates a problem for the automobile company that does not know what to do if it does get the car back on its hands.

Many of these men are unable to meet the payments of their household articles, and there is a great deal of discussion, as I travel through these railroad centers, that the Government of this United States is not particularly interested in their welfare. I have heard many statements from, I would say, some of the most loyal citizens of this country indicating that it is almost getting to the period in life that, in order to enjoy full prosperity in this country, we must have a so-called wartime economy, and we find that these agents from foreign lands that want to destroy our Government are pumping such information into this country, that a democracy such as these United States cannot live unless it lives on war and a wartime economy.

We are very glad to point out to you that every member of this Brotherhood of Railroad Trainmen that I have the honor to represent—and there are 215,00 of them in the Brotherhood—are all loyal American and Canadian citizens, and to my knowledge we do not have a Communist within the ranks of our organization, and we want, of course, to keep out that thought and idea that the only way that we can prosper in this country is to have a war or treat our economy on a wartime basis.

Many of our members now have started to borrow on their insurance policies because that is one of the avenues that they might find a little income from. I was very interested as I talked to some of our people in New York and up in New England with regard to the financial situation.

Strange as it may seem, the workers that I represent have not built up large savings accounts. They have been spending their money on the necessities of life, and now when they go to a bank to borrow a little money, they find that the so-called hard money policy of our Government has increased their interest rates until they must now spend 6, 7 and 8 percent in order to get a loan, and in many instances they are not even invited to take out a loan because their security risk is not looked upon as being too desirable.

So in this situation that we now find ourselves in, we cannot escape the fact that the increase in the interest rates that has not only applied to Government bonds but has applied to the borrowing of money in the banks or the interest on the mortgages of homes, means that over a period of years, the individual must pay out more money in interest rates in order to purchase the home or whatever article he is interested in.

Now, I realize that at a meeting such as you gentlemen have called, probably one of the most important investigations and meetings that is taking place here in the city of Washington today, you are looking for an opportunity to find where there would be some degree of relief.

First of all, let me point out to you that there is a burden on the American railroads, and it likewise is on the employees of the American railroads, that I think should be relieved, and that is the 15 percent tax on transportation. That tax was put on the railroad industry back in wartime days, and it was understood that it was a wartime measure, and that when the war days were over, this tax burden would be taken from the industry.

Yet when you go down to buy a ticket from Washington to Philadelphia or New York or Chicago, you not only purchase the ticket at a rate set up by the Interstate Commerce Commission, but you also pay the 15 percent tax on that. And that involves a considerable amount of money, and in my opinion, it restricts travel on passenger trains, and on many of these passenger trains we certainly need more passengers, and if the tax would be eliminated, it would stimulate

In other words, they look at our economy as being healthy when there are 3 or 4 million workers out of work in this country.

Well, we disagree very seriously with that philosophy. There is no reason why in this country of ours every man should not be employed and given an opportunity to work. We are expanding this country by the millions through immigration and through the birth increase. This is looked upon as one of the greatest countries of the world where democracy rules supreme, where everybody is to get a square deal, where everybody can have full employment, and yet here we find in these days of prosperity that millions of workers now are out on the streets.

That is not, certainly, a healthy situation, and anybody that indicates that this economy should have unemployment really does not know what he is talking about, because there is nothing that will bring communism into this country quicker than to disregard these millions of people that have had positions and owned their homes and now lose their jobs and lose their homes and are thrown in the bread lines of the country.

So I certainly and sincerely hope that as an outcome of your investigation which I appreciate you are making here, you will make recommendations and you will do something to stimulate an activity among the Congress of the United States and among the present administration to give these people the relief.

We are not looking for unemployment insurance benefits. We are not looking for charitable donations. The men I represent want jobs.

Thank you very much.

Chairman WOLCOTT. Thank you, Mr. Kennedy.

Mr. Roger Fleming, secretary-treasurer of the American Farm Bureau Federation.

STATEMENT OF ROGER FLEMING, SECRETARY-TREASURER, AMERICAN FARM BUREAU FEDERATION

Mr. FLEMING. Chairman Wolcott, members of the committee, let me say first that I appreciate, in behalf of the 1,591,777 farm families who are Farm Bureau members, this opportunity to appear before this group this morning.

I have a prepared statement, including an attachment, that I should like to file for the record, I shall summarize the 11-page statement which I have here, at least a part of it extemporaneously.

At the outset, I should like to read to you a couple or three sentences from the testimony of my colleague on this panel, Mr. Reuther, for I must, of necessity, comment with regard to it. At the bottom of page 11, in discussing the farm program, Mr. Reuther says:

> Unfortunately, the Eisenhower-Benson farm program will weaken existing agricultural legislation rather than strengthen it. The President and Secretary Benson have introduced proposals for flexible supports of basic crops. This program ignores the needs of the family farmer in the United States. It has the support of only large business-type farm groups. We are opposed to it.

The comment which I am about to make does not have to do with the provisions of the recommendations of the President of the United States or the Secretary of Agriculture. What I want to comment upon is the sentence which obviously refers to us, among others, when he says, "It has the support of only large business-type farm groups."

Now, I have seen statements like this before in various places. Usually I ignore them. But in this instance this morning, I want to make a few comments.

This is a part of an apparent program to try to smear the representativeness of what I consider a great free institution, one that I have the opportunity to work for and to represent. I am also, I presume, partly motivated by the fact that I am a son of a tenant farmer, one who lost his farm in the depression, and one who knows the consequences of low farm income firsthand.

There are in the United States today approximately 11 percent of the farm families who have a gross income, before deduction of expenses, of $10,000 or more. This means a total of 493,000 farm families with gross sales of $10,000 or more and many of them are not members of the Farm Bureau. We have in our membership 1,591,777 families. Our largest membership is in the States with the smallest farmers. Those who talk most about family farmers have the biggest membership in the States with the largest farmers.

The tactics of coming before this group and attacking the representativeness of another free institution is something in which I never engage, nor are they tactics in which our organization engages. This unprovoked charge is a lie made of the whole cloth, and I want to call it such, also in behalf of our people I want to say that I resent it. For there is no truth in it, and it is about time that this fraud that is being spread throughout the country is called to a halt.

Now I should like to return to my statement.

First of all, we as farmers know full well that we as farmers cannot have prosperity and freedom unto ourselves. We know that we can only achieve these twin objectives as a part of a dynamic national economy in a world at peace.

A major objective of our policy is to create conditions which will make is possible for farmers to earn and get a high per family farm income. We conduct an annual referendum of each farm family to make certain——

Representative PATMAN. Mr. Chairman, I did not get exactly what the gentleman is taking issue with Mr. Reuther on. I think it is important, since his language was rather unusual in a committee of this type. I read what Mr. Reuther had to say, and I thought it was all right.

Mr. FLEMING. It could be, Mr. Patman, that you agree with it.

Representative PATMAN. It is on the Benson farm program. That is the only part. But what do you think about the other part, the first two paragraphs there, about the prevention and about what is essential to prevent another recession?

Mr. FLEMING. I shall comment on that in my statement. I was referring to one statement alone. And let me make it crystal clear what I meant there——

Representative PATMAN. But I think your language is unnecessarily violent. I would not say Mr. Reuther made a weak suggestion, but it is at least one that he had a right to make. I do not think he should be called a liar because he made it.

Mr. FLEMING. I said this statement clearly inferring that we represent only big farmers is a lie.

Chairman WOLCOTT. May I suggest, knowing Mr. Reuther as I do, he can take pretty good care of himself in that respect.

Representative PATMAN. I think he is making a better statement for the farm program than the Farm Bureau itself.

Mr. REUTHER. I can assure the chairman that I am perfectly willing to excuse the excessive amount of enthusiasm that my colleague has put in that statement.

Mr. FLEMING. Let me make the record clear with regard to the sentence I referred to: "It has the support of only large business-type farm groups."

Mr. FLEMING. I wanted to make the record clear with regard to the composition of our membership. I intentionally made the statement strong because the facts merit such a strong statement, when efforts are made by one free institution in a society to attack the representativeness of another.

Representative PATMAN. But they are on your side and doing more for the farmers in this discussion than you are doing.

Mr. FLEMING. This we would like to let the farmers decide. And I shall comment upon the recommendations of farmers in my prepared statement, if I may.

Representative PATMAN. It is unusual to have a labor organization on the farmers' side.

Mr. FLEMING. I would say that it is still unusual.

Chairman WOLCOTT. I think we should allow Mr. Fleming to proceed with his statement without interruption.

Mr. FLEMING. Mr. Chairman, if I may go back to my last statement, which is that it is a major objective of our policy to create conditions which will make it possible for farmers to earn and get a high per family real income, this is a major consideration in their discussions, and it is an issue which it is appropriate that we discuss.

I do not in any way object to disagreement with regard to the propositions, or with regard to the recommendations, or with regard to the appraisal of the implications of the choices we make. My comment was with regard to an attack upon the representativeness of an institution. This is quite a different proposition.

We believe in the American private enterprise system. We are not unaware of the activities of those who do not.

As I read the Economic Report of the President, one paragraph particularly caught my attention. It is a fine statement of the fundamentals of our economic system, the record of performance of which is second to none. And I should like to quote this one, although I shall not read all the quotes I have in here:

> Open markets and effective competition are the means of channeling productive efforts toward social purposes in a private enterprise system. Markets must be kept free from restraints that discourage the innovator for the benefit of established firms or products. Open markets provide ladders of opportunity upon which the newcomer may climb. Competition must be allowed to perform its traditional role of regulator and energizer, to direct our economic resources into those lines which most accurately meet the needs or tastes of consumers. This role of competitive markets is as basic to the proper functioning of our economic order as the secret ballot is to our political democracy. Government has a vital responsibility in this area, immensely complicated by large aggregations of capital under single management and large organizations of labor.

Now, this paragraph which I have just read, is in dramatic contrast to some of the testimony which I heard in this room before this distinguished group last Thursday, February 11. I heard it, and then I read the transcript carefully. The issue of whether or not relative prices should be relied upon to help guide production and distribution of agricultural commodities was joined. The implications of this issue have far-reaching importance to every citizen. One of the panel members said:

You have been told that the present level of support prices is too high, that lower prices will reduce production by decreasing acreage and that they will also increase the volume of exports. These promises or hopes cannot possibly be realized in any substantial way by means of flexible prices.

Another, taking the same general line, said:

The one major change, flexible price supports, will not produce the economic effects that the administration expects it to produce. Contrary to the belief of the President, farm-price reductions to the 75 percent lower limit specified will not materially reduce agricultural production nor increase consumption. On the production side, farmers respond quite readily to a rising price by increasing production; but they do not and cannot respond to a falling price by reducing production. On the consumption side, a fall in farm prices results in a much smaller drop, or no drop at all, in the prices consumers pay, because of inflexibility in the marketing margain. Even when retail prices drop, American consumers do not customarily buy more agricultural products, but spend their windfall saving on other things.

Now, in striking contrast to these two statements, still another member of the panel said:

* * * I believe that prices have roles to perform in the economy in getting goods consumed and in stimulating desirable adjustments among various farm products. The present high-level supports interfere with these functions in ways that will cause long-run damage to farmers and consumers and also cause large and unnecessary expense to the Federal Government, and so to taxpayers.

This discussion on February 11 reminded me of a leaflet that I had read sometime ago, and I went and looked it up and got out of it two paragraphs that I think sharpen up more clearly than I could by speaking extemporaneously, the proposition involved. Now I am quoting from it:

* * * Through the free expression of their wants and choices in the spending of their disposable personal incomes, the consumers in a free market economy have the final say in what goods will be produced and in what amounts. For no group of suppliers could long prosper unless it satisfied the sovereign consumers.

As a result, those people whose tactics aim at placing control over the economy in the hands of Government authority must destroy the free-price system. And since no genuine reformer who is trying to preserve the free-choice system would try to destroy the free-market economy, every policy, measure or line of propaganda aimed at weakening or destroying the free-price system can be identified as assault tactics of the enemies of freedom—no matter how carefully it is disguised as a means of promoting the general welfare.

The Farm Bureau is not in favor of Government price fixing. In fact, we are convinced that it would be impossible to preserve our private-enterprise system if America chose the price-fixing road. We favor improving—not destroying—the American system.

Now, with regard specifically to the matter of farm price supports and adjustment programs, which I assume this committee would like to have us comment upon, I would like to say at the outset that I think it is well known to most of the Members of the Congress that we aggressively supported the Agricultural Act of 1938 and the acts of 1948 and 1949. These legislative acts were designed to provide farmers Government assistance in adjusting production to effective demand, thereby increasing the opportunities for farmers to get a fair price in the market place.

I would like to underline it, because this was the philosophy of that legislation, and we support it still.

Because of the widespread misinformation that exists with regard to the economic and political facts surrounding the passage of the Agricultural Acts of 1948 and 1949, it might be of service to this committee for me to set the record straight.

It should be borne in mind that this legislation was evolved during a period after World War II that resembled in many ways the current period. Then, as now, we had moved out of a shooting war situation into a postwar type of economic setting. Then, as now, we had our agricultural plant overexpanded and were confronted with reduced foreign demand. The year 1947 was one of extensive farm program studies just as 1953 was.

Now, I have, starting at the top of page 4, a documentation with regard to certain events that highlight the history of this period. The first quotation is one made by Senator Anderson, when he was Secretary of Agriculture, in April of 1947, in which he called for the evolution of a system of flexible price supports.

The next quotation is from Carl Farrington of the Department, who at that time was head of the Department's Price Policy and Production Adjustment Committee, in which he discusses the implications of a floor price that is too low and the implications of a price support at 90 percent, which he indicated might force us into a completely managed agricultural economy.

The next quotation is a statement which we made in 1948 with regard to this particular issue.

Next is a quotation from a message which President Truman sent to the Congress in May of 1948, asking that the Congress enact a flexible price-support program in the 80th Congress.

The next is a statement at the bottom of the page. Maybe I should read it, since it is very important:

Both the Republican and Democratic Party platforms in 1948 were square toed in their endorsement of the basic principles of the Agricultural Act of 1948, including flexible price supports.

Both candidates for President campaigned in favor of the flexible price supports in the 1948 election. I have here the latest and most specific quotation from Candidate Truman, made at Springfield, Ill., on October 12, prior to the November 2 election, in which he came out more square toed by far than the candidate of the opposing party in support of the flexible price-support program.

After the election, in January the Council of Economic Advisers submitted to the Congress their report. They included a specific section on farm price supports.

Mr. Chairman, I should like to read it, for I think it is one of the best statements that has ever been written about this question. It puts the proposition as succinctly as anything that I have seen written:

> Intercommodity price relationships must be kept consistent with basic trends in demand and supply conditions. To the maximum extent possible, parity-price relationships and support-price programs should encourage shifts to those commodities that are most wanted. Rigid systems of support, in violation of this principle, can only lead to rigid systems for restricting output that violate our tenets of economic freedom, that work against our objectives of maximum production, and that in the end take away from farmers' incomes through decreased volume as much as, or more than, they add through increased prices.
>
> The Agricultural Act of 1948 represents an important step forward in recognizing the difficulties associated with overrigid supports.

In his budget message to the 81st Congress in January of 1949 President Truman restated the fundamental principles upon which the Agricultural Act of 1948 was based, and his support of them.

Then the Joint Committee on the Economic Report, the group which I have the privilege of appearing before this morning, issued two reports, the majority report headed by Senator O'Mahoney and Congressman Hart, and a minority report. And I have listed here what was said by each of them. They are very pertinent and direct to the point, and in both instances support the principle of using price relationships in agriculture to help guide production and distribution.

I present this chronology of events because I know of no political hoax that has been given wider circulation, sometimes unintentionally, than the idea that the flexible-price-support question was an issue in the 1948 election. I hope that this documentation will be useful in clarifying that matter.

We commend President Eisenhower for his decision to base the administration's farm-program recommendations on the principles of the Agricultural Act of 1949, as he pledged during the campaign he would. Our members believe that variable price supports are an important part of a sound program for helping farmers get and keep supplies in line with effective demand, which was the basis of the acts of 1938 and of 1948 and 1949. We believe this legislation provides a sound foundation upon which to build a workable price support and adjustment program. In this connection, I want to call to your attention two provisions in our policies on this subject agreed upon at our most recent convention, December 1953, by the voting delegates of the member State farm bureaus.

First of all, we call for the termination at the end of 1954 of the rigid price-support program. We call for the putting into operation of the 1949 act, with the modernized parity formula, and then recommend two revisions. The first one reads as follows:

> In addition the law should be amended to provide that 90 percent of parity price supports shall be mandatory the first year that marketing quotas are in effect for any commodity immediately following a year in which marketing quotas were not in effect on such commodity.

The second proposition is:

> By stockpiling fertility in the soil, we will build a "soil fertility bank" as a reserve for use in national emergencies. In contrast to a policy of accumulating large stocks of commodities, this approach will protect consumers without destroying the functioning of our market-price mechanism.

Now, I know it is not the function of this committee to go into detail with regard to these propositions, but both of them are important, and the first one particularly we are confident will provide the basis for a compromise between the differing points of view with regard to this protection, one which we are confident will receive substantial support in the Congress of the United States.

Now, I have listed here, and I think you may be interested in them, the number of acres which the control programs on wheat, corn, and cotton will make available for the production of other crops in 1954. These are what are known as diverted acres. If there is full compliance, there will be 30 million acres taken out of the production of 3 crops alone in 1 year. I have listed here the acreages of certain other crops to dramatize the possible impact of these diverted acres upon the producers of other crops, most of which have no supports at all.

This is a very serious proposition, and one that is of concern to farmers throughout the United States. And these figures may be interesting to you in order that you may see the contrast.

For example, the 30 million acres is just a little less than 10 times the total acreage put into vegetables in the United States. This is kind of like building up a dam and making it possible for the water to run out and flood the other people who are innocent victims of a program.

Now, on page 8 there is listed a figure which should be generally known, and yet I find from time to time it is not, that the so-called basic commodities about which most of the argument occurs represent about 23 percent of gross farm receipts. The other 77 percent of gross farm receipts are from other than the so-called basic commodities about which the argument is primarily concerned.

The present price-support program, by accumulating unmanageable surpluses, actually has created price ceilings on several farm commodities. This is something that is becoming much better understood throughout the United States, as we see market prices substantially below the support prices, primarily because of the existence of price-depressing surpluses that do not give the farmer a chance to get a real income in the market place. And although the situation is already serious, the prospects for the year ahead are even more ominous. This is a real concern to farmers who are primarily interested in high per-family farm income.

Price-support and adjustment programs, when properly used, can be a valuable part of a sound farm program. At the same time it should be recognized that in some circumstances price supports will do far more harm than good. An example will illustrate what I mean. Two years ago, that is in 1952, hog producers were in real trouble. Hog numbers were up, corn prices were high. The result was severe losses to even the most efficient producers. What was the answer? Some politicians of both political parties tried to lure hog producers into accepting Government price supports on hogs at 90 percent of parity. Instead of falling into the seductive trap of the political price fixers, hog producers voluntarily reduced the spring pig crop in 1952 by 9 percent and the fall pig crop 11 percent as compared to 1951. What happened? In spite of increased quantities of beef and substantially lower prices for beef in 1953, hogs increased in price from 76 percent of parity, $16.40 per hundredweight, in April 1952 to an average of $21.60, or 107 percent of parity, for the 1953 year. Hog prices at present, that is the January 15 report, are $24.60—119 percent of parity.

Let us analyze a few pertinent questions with regard to this situation, because I think it gets at a proposition that I raised earlier:

1. What would have been the size of the 1952 spring and fall pig crops if hog producers had succumbed to the temptation of price supports on hogs in 1952? Hog producers insist they would not have adjusted production downward.

2. Assuming hog producers know what they're talking about—and I do—what would have happened to hog prices in 1953? The answer is crystal clear; they would have remained at unprofitable levels. In-

stead of making money, as hog producers did in 1953—and are doing today—they would have continued to lose money.

3. What effect would continued high hog production and low hog prices have had on cattle and beef prices in 1953? Anyone who has studied this problem knows the answer. Cattle prices would have been still lower than they were—losses to producers even greater.

One of the reasons why cattle producers in 1953 didn't listen to the seductive music of the political pied pipers who tried to lure them into approving direct price supports on live cattle was their knowledge of the facts I have just enumerated. The vast majority of cattlemen recognized that price supports, which would have delayed—or stopped completely—needed adjustments in cattle numbers, would have done far more harm than good.

Livestock producers have a solid basis in their recent experience for viewing price supports on livestock as one of the real threats both to their future income earning capacity and their basic economic freedom as well.

Now, in conclusion, as I said at the outset, farmers know their welfare is closely tied in with a healthy general economy.

I should like to conclude this statement, Chairman Wolcott, by including in the record a summary statement that points out our interest in stopping planned inflation and avoiding the pitfalls of deflation, of our interest in foreign markets, for we know that if we do not have markets, we are not going to have farm prosperity and certain other matters that were included in a statement which our president Allan Kline made last week.

Chairman Wolcott. The matter seems to be germane. Without objection, it may be inserted in the record.

(The statement referred to follows:)

CONCLUSION

The major question facing farmers and all citizens is whether we as a Nation can stop inflation and at the same time avoid deflation. No issue is of greater importance to farmers. Inflation brings ruin eventually, and deflation causes widespread distress to the farming community. Our policies are directed toward avoiding these two extremes and, at the same time, managing budget, taxes, and monetary matters in such a way as to encourage high employment and rising productivity.

Mutually advantageous trade with foreign countries is of equal significance because agricultural production has been geared to foreign trade, and that trade has been falling off.

With production that was greatly expanded to meet the unusual demands of the war and early postwar periods, agriculture urgently needs expanded markets. There is no substitute for markets. It is important that we solve the trade problem, not only in the interest of agriculture, but as a means of achieving world peace and prosperity.

Unless markets can be expanded to absorb current production, farmers have no sound alternative except to adjust their production to effective market demand.

Policies and programs which cut farmers out of needed markets or encourage continuing surpluses destroy the farmer's opportunity to earn and get a high per family income. We sincerely believe that our recommendations on price supports constitute the best basis for reconciling the differing points of view on this question. We expect strong bipartisan support for our compromise proposal.

Farmers are rightfully interested in improving our price-support programs. Surpluses being created by present programs threaten seriously to reduce income from price-supported commodities, while the acres to be diverted from the controlled crops jeopardize the income-earning ability of the producers of nonsupported crops.

In addition, if these programs are not operated in the public interest, farmers run the very real risk of losing all price-support programs. After all, 85 percent of the people who vote do not live on farms. Everyone in America has an interest in a sound agriculture. Our purpose is to develop programs and policies that will protect the public's interest in having available at reasonable prices plentiful supplies of food and fiber efficiently produced, and at the same time provide the basis for farm prosperity.

(The full statement of Mr. Fleming follows:)

STATEMENT BY ROGER FLEMING, SECRETARY-TREASURER, AMERICAN FARM BUREAU FEDERATION

Mr. Chairman and members of the committee, at the outset I want to express in behalf of the 1,591,777 farm families who are members of the American Farm Bureau Federation our appreciation in being asked to participate in this panel discussion with respect to the economic report of the President of the United States.

We seek to approach national issues from the standpoint of what is best for the general welfare. We know full well that farmers cannot be prosperous and free unto themselves, but instead can achieve these twin objectives only as a part of a dynamic national economy in a world at peace.

A major objective of Farm Bureau policy is to create conditions which will make it possible for farmers to earn and get a high per family real income.

The problem of maintaining prosperity in agriculture is exceedingly broad and complex and involves many different lines of action not only in agriculture but also in other fields.

We believe in the American private enterprise system. We are not unaware of the activities of those who do not.

As I read the economic report of the President, one paragraph particularly caught my attention. It is a fine statement of the fundamentals of our economic system, the record of performance of which is second to none:

"Open markets and effective competition are the means of channeling productive efforts toward social purposes in a private enterprise system. Markets must be kept free from restraints that discourage the innovator for the benefit of established firms or products. Open markets provide ladders of opportunity up which the newcomer may climb. Competition must be allowed to perform its traditional role of regulator and energizer, to direct our economic resources into those lines which most accurately meet the needs or tastes of consumers. This role of competitive markets is as basic to the proper functioning of our economic order as the secret ballot is to our political democracy. Government has a vital responsibility in this area, immensely complicated by large aggregations of capital under single management and large organizations of labor."

This paragraph is in dramatic contrast to statements made in this room on February 11 by some of the panel members who appeared before this distinguished group. I was present and heard their testimony. In addition, I have read carefully the transcript.

The issue of whether or not relative prices should be relied upon to help guide production and distribution of agricultural commodities was joined. The implications of this issue have far-reaching importance to every citizen.

One of the panel members said:

"You have been told that the present level of support prices is too high, that lower prices will reduce production by decreasing acreage and that they will also increase the volume of exports. These promises or hopes cannot possibly be realized in any substantial way by means of flexible prices."

Another, taking the same general line, said:

"The one major change, flexible price supports, will not produce the economic effects that the administration expects it to produce. Contrary to the belief of the President, farm price reductions to the 75 percent lower limit specified will not materially reduce agricultural production nor increase consumption. On the production side, farmers respond quite readily to a rising price by increasing production; but they do not and cannot respond to a falling price by reducing production. On the consumption side, a fall in farm prices results in a much smaller drop, or no drop at all, in the prices consumers pay, because of inflexibility in the marketing margin. Even when retail prices drop, American consumers do not customarily buy more agricultural products, but spend their windfall saving on other things."

In striking contrast to these two statements, still another panelist said:

"* * * I believe that prices have roles to perform in the economy in getting goods consumed and in stimulating desirable adjustments among various farm products. The present high-level supports interfere with these functions in ways that will cause long-run damage to farmers and consumers and also cause large and unnecessary expense to the Federal Government, and so to taxpayers."

This discussion reminded me of a leaflet I recently read entitled "Let's Take a Look at Our Free Choice System" prepared by H. P. B. Jenkins, professor of economics, College of Business Administration and published by the University of Arkansas. In discussing the efforts of those who would shackle our free choice system by destroying the effective functioning of "price," Professor Jenkins says:

"* * * Through the free expression of their wants and choices in the spending of their disposable personal incomes, the consumers in a free market economy have the final say in what goods will be produced and in what amounts. For no group of suppliers could long prosper unless it satisfied the sovereign consumers.

"As a result, those people whose tactics aim at placing control over the economy in the hands of Government authority must destroy the free price system. And since no genuine reformer who is trying to preserve the free choice system would try to destroy the free market economy, every policy, measure or line of propaganda aimed at weakening or destroying the free price system can be identified as assault tactics of the enemies of freedom—no matter how carefully it is disguised as a means of promoting the general welfare."

The Farm Bureau is not in favor of Government price fixing. In fact, we are convinced that it would be impossible to preserve our private enterprise system if America chose the "price fixing" road. We favor improving—not destroying—the American system.

FARM PRICE SUPPORTS AND ADJUSTMENT PROGRAMS

It is a fact well known to the Members of Congress that the Farm Bureau helped write and aggressively supported the basic principles of the Agricultural Adjustment Act of 1938 and the Agricultural Acts of 1948 and 1949, which constitute the basic price support and adjustment program authority. These legislative acts were designed to provide farmers governmental assistance in adjusting production to effective demand, thereby increasing opportunity for farmers to get a fair price in the market place.

Because of the widespread misinformation that exists with regard to the economic and political facts surrounding the passage of the Agricultural Acts of 1948 and 1949, it might be of service to this committee for me to set the record straight.

It should be borne in mind that this legislation was evolved during a period after World War II that resembled in many ways the current period. Then, as now, we had moved out of a shooting war situation into a postwar type of economic setting. Then, as now, we had our agricultural plant overexpanded and were confronted with reduced foreign demand. The year 1947 was one of extensive farm program studies just as 1953 was.

On April 21, 1947, Clinton P. Anderson, Secretary of Agriculture said:

"We need to develop a long-range system of commodity price floors to protect producers against excessive or abnormal declines during the market season and to generally cushion declines in farm prices and incomes in the event of business recessions. We should make sure, however, that we do not establish a rigid system of price relationships * * *. Prices are and should be an effective means of encouraging changes in production as the conditions of production and demand change."

In response to questioning by members of the Senate Committee of Agriculture and Forestry, Carl C. Farrington, speaking as chairman of the Department's Committee on Price Policy and Production Adjustment, said:

"We have given much thought to the percentage of modernized parity which might be used as a minimum price floor. Our studies indicate that 50 percent of parity, for example, might not be high enough to act as an effective stop-loss mechanism, and 90 percent might force us into a completely managed agricultural economy."

The American Farm Bureau Federation on January 28, 1948, explained to the House Agricultural Committee the meaning of its recommendations with respect to "variable" price supports as follows:

"We believe that when the permanent farm program is written existing legislation should be amended to provide a program based upon mandatory variable price supports for agricultural commodities * * * sufficient flexibility should be provided to give producers of the commodity maximum authority to determine the level of the support price of their particular commodity."

President Truman sent a message to the Congress on May 14, 1948. In it he asked for flexible price supports in these words:

"Many shifts in production will have to be made and flexible price supports will help us make them in an orderly manner. This will require authority to make prompt adjustments in support levels in line with current and prospective supply and demand conditions. It will also require flexibility in the choice of methods or programs that are designed to be most effective for individual commodities, that avoid waste, and that help bring about needed adjustments in production, distribution, and consumption."

Both the Republican and Democratic Party platforms in 1948 were square-toed in their endorsement of the basic principles of the Agricultural Act of 1948, including flexible price supports.

Both candidates for President campaigned in support of flexible price supports. In a speech which Candidate Truman delivered at Springfield, Ill., on October 12, just prior to the November 2, 1948, election, he said:

"Here are the main outlines of the agricultural program we must have: (1) We must have on a permanent basis a system of flexible price supports for agricultural commodities. Price supports and related measures help us keep our farm production adjusted to shifting market requirements. * * *"

The President's Council of Economic Advisers on January 7, 1949, submitted an economic review under the heading "Farm price supports," in which they used these words:

"Intercommodity price relationships must be kept consistent with basic trends in demand and supply conditions. To the maximum extent possible, parity-price relationships, and support-price programs should encourage shifts to those commodities that are most wanted. Rigid systems of support, in violation of this principle, can only lead to rigid systems for restricting output that violate our tenets of economic freedom, that work against our objectives of maximum production, and that in the end take away from farmers' incomes through decreased volume as much as, or more than, they add through increased prices.

"The Agricultural Act of 1948 represents an important step forward in recognizing the difficulties associated with overrigid supports."

In his budget message to the 81st Congress in January 1949 President Truman restated the fundamental principles upon which the Agricultural Act of 1948 was based.

"As I said a year ago, price supports should be regarded 'chiefly as devices to safeguard farmers against forced selling under unfavorable conditions and economic depression.' Their purpose is to bring an element of stability into agriculture. At the same time they should not place excessive burdens on the Treasury and taxpayers or inhibit shifts in production needed to meet peacetime demands and to promote adequate conservation of our soil resources."

The majority report of the Joint Committee on the Economic Report, headed by Senator O'Mahoney (Democrat, Wyoming) and Congressman Hart (Democrat, New Jersey) had this to say on May 1, 1949:

"In order to fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels, agricultural price supports must be kept as floor prices; not as a means of price fixing, nor to guarantee a profit, but to provide a barrier against the sort of devastating price declines which in the past have made agricultural depression the forerunner of business and industrial depression. * * *

"The need to put into operation a flexible, well-integrated, and varied farm program is urgent. In addition to flexible price supports intelligently adapted to postwar conditions, consideration should be given as parts of a coordinated program to such measures as the provision of adequate storage facilities, more adequate credit accommodations, crop insurance, etc."

The minority report contained the following pertinent paragraph:

"We still consider that a support-price program for farm prices is highly desirable to prevent the development of a depression through a complete collapse in agricultural products. We do not feel that it is our function at this time to discuss the various plans for such price support, but we recommend that a full trial be given to the Aiken-Hope Act and its plan of sliding-scale support recommended by the leading agricultural associations. The administration of this plan should be directed not as if it were a relief measure or a guaranteed equality of income for individuals, but as a major weapon against distortion between urban and rural incomes which could bring collapse to the entire Nation."

I present this chronology of events because I know of no political hoax that has been given wider circulation—sometimes unintentionally—than the idea that the flexible price-support question was an issue in the 1948 election. I hope that this documentation will be useful to those interested in the facts.

ADMINISTRATION'S RECOMMENDATIONS

We commend President Eisenhower for his decision to base the administration's farm-program recommendations on the principles of the Agricultural Act of 1949, as he pledged during the campaign he would. Our members believe that variable price supports are an important part of a sound program for helping farmers get and keep supplies in line with effective demand. We believe this legislation provides a sound foundation upon which to build a workable price support and adjustment program. In this connection, I want to call to your attention two provisions in our policies on this subject agreed upon at our most recent convention (December 1953) by the voting delegates of the member State farm bureaus. (Full text of applicable resolutions attached.)

1. "The temporary provisions of law requiring 90 percent of parity price support on the basic commodities without regard to supply should be allowed to expire at the end of the 1954 program. The principles of the permanent provisions of the Agricultural Act of 1949 with respect to variable price supports should be put into effect. *In addition the law should be amended to provide that 90 percent of parity price supports shall be mandatory the first year that marketing quotas are in effect for any commodity immediately following a year in which marketing quotas were not in effect on such commodity.* Thereafter, the level of price supports would be determined by the producers' response in bringing supplies in line with effective demand."

2. "*By stockpiling fertility in the soil, we will build a 'soil-fertility bank' as a reserve for use in national emergencies. In contrast to a policy of accumulating large stocks of commodities, this approach will protect consumers without destroying the functioning of our market price mechanism* * * *."

The italic sentences are new so far as Farm Bureau policy is concerned. The first provision is designed to apply to a situation where cotton, wheat, corn, peanuts, or rice get in a serious surplus position when marketing quotas are not in effect. The practical effect of it would be to give producers of these commodities an additional year under quotas after a year when quotas were not in effect, to get supplies in line with demand before variable supports become operative. This compromise provision would not be applicable in 1955 on cotton, wheat, and peanuts since they are under marketing quotas in 1954.

The second proposed revision, among other things, is designed to help deal with the problem created by acres diverted from crops under marketing quota and acreage controls. Under the marketing quota programs on wheat and cotton, and the acreage allotment program on corn, producers in 1954 are being called upon to divert about 30 million acres from the production of these 3 crops alone. In addition, it is worth noting that with normal weather in 1954 we are likely to add to the already large surplus of wheat and cotton even with marketing quotas in effect on these two commodities. These diverted acres are not likely to remain idle. Instead, they are likely to be planted to other crops to be harvested directly or fed to livestock.

Listed below are the total 1953 planted acreages of some of the crops that may be increased by the use of diverted acres in 1954.

Soybeans for beans	[1] 14, 366, 000
Flaxseed	4, 560, 000
Oats	44, 015, 000
Barley	9, 597, 000
Rye	3, 298, 000
29 commercial vegetables	[1] 3, 929, 000
Potatoes	1, 532, 100
Dry peas	280, 000
Dry edible beans	1, 437, 000
Broomcorn	[1] 251, 000
Sorghum grain	[1] 6, 137, 000
Sweetpotatoes	356, 100
Alfalfa hay	[1] 20, 269, 000
Sugar beets	792, 500

[1] Harvested acreage.

The total harvested acreage in 1953 of the other three so-called basic commodities are as follows:

Tobacco	1,638,000
Rice	2,135,000
Peanuts	1,538,000

Basic commodities (cotton, wheat, corn, tobacco, rice, and peanuts) account for slightly less than 23 percent of cash farm receipts, whereas other commodities account for the remaining 77 percent.

The present price-support program, by accumulating unmanageable surpluses, actually has created price ceilings on several farm commodities. We have a supply of wheat on hand so large that the average market price is depressed to roughly 82 percent of parity, for example. A price-support program that results in the production of huge surpluses that hang over the market, depress prices, and invite strict production and marketing controls, not only is a threat to future farm income but to the price and market system itself.

Price support and adjustment programs, when properly use, can be a valuable part of a sound farm program. At the same time it should be recognized that in some circumstances price supports will do far more harm than good. An example will illustrate what I mean. Two years ago (1952) hog producers were in real trouble. Hog numbers were up, corn prices were high. The result was severe losses to even the most efficient producers. What was the answer? Some politicians of both political parties tried to lure hog producers into accepting Government price supports on hogs at 90 percent of parity. Instead of falling into the seductive trap of the political price fixers, hog producers voluntarily reduced the spring pig crop in 1952 by 9 percent and the fall pig crop 11 percent as compared to 1951. What happened? In spite of increased quantities of beef and substantially lower prices for beef in 1952, hogs increased in price from 76 percent of parity ($16.40 per hundredweight) in April 1952 to an average of $21.60, 107 percent of parity for the 1953 year. Hog prices at present (January 15 report) are $24.60, 119 percent of parity.

Let us analyze a few pertinent questions with regard to this situation:

1. What would have been the size of the 1952 spring and fall pig crops if hog producers had succumbed to the temptation of price supports on hogs in 1952? Hog producers insist they would not have adjusted production downward.
2. Assuming hog producers know what they're talking about—and I do—what would have happened to hog prices in 1953? The answer is crystal clear; they would have remained at unprofitable levels. Instead of making money as hog producers did in 1953—and are doing today—they would have continued to lose money.
3. What effect would continued high-hog production and low-hog prices have had on cattle and beef prices in 1953? Anyone who has studied this problem knows the answer. Cattle prices would have been still lower than they were, losses to producers even greater.

One of the reasons why cattle producers in 1953 didn't listen to the seductive music of the political pied pipers who tried to lure them into approving direct price supports on live cattle was their knowledge of the facts I has just enumerated. The vast majority of cattlemen recognized that price supports, which would have delayed—or stopped completely—needed adjustments in cattle numbers, would have done far more harm than good.

Livestock producers have a solid basis in their recent experience for viewing price supports on livestock as one of the real threats both to their future income earning capacity and their basic economic freedom as well.

CONCLUSION

As I said at the outset, farmers know their welfare is closely tied in with a healthy general economy. I should like to conclude this statement with a brief summary of the thinking of farmers as recently expressed by our president, Allan B. Kline:

"The major question facing farmers and all citizens is whether we as a nation can stop inflation and at the same time avoid deflation. No issue is of greater importance to farmers. Inflation brings ruin eventually, and deflation causes widespread distress to the farming community. Our policies are directed toward avoiding these two extremes and, at the same time, managing budget, taxes, and monetary matters in such a way as to encourage high employment and rising productivity.

"Mutually advantageous trade with foreign countries is of equal significance became agricultural production has been geared to foreign trade, and that trade has been falling off.

"With production that was greatly expanded to meet the unusual demands of the war and early postwar periods, agriculture urgently needs expanded markets. There is no substitute for markets. It is important that we solve the trade problem, not only in the interest of agriculture, but as a means of achieving world peace and prosperity.

"Unless markets can be expanded to absorb current production, farmers have no sound alternative except to adjust their production to effective market demand.

"Policies and programs which cut farmers out of needed markets or encourage continuing surpluses destroy the farmer's opportunity to earn and get a high per family income. We sincerely believe that our recommendations on price supports constitute the best basis for reconciling the differing points of view on this question. We expect strong bipartisan support for our compromise proposal.

"Farmers are rightfully interested in improving our price-support programs. Surpluses being created by present programs threaten seriously to reduce income from price-supported commodities, while the acres to be diverted from the controlled crops jeopardize the income earning ability of the producers of nonsupported crops.

"In addition, if these programs are not operated in the public interest, farmers run the very real risk of losing all price-support programs. After all, 85 percent of the people who vote do not live on farms. Everyone in America has an interest in a sound agriculture. Our purpose is to develop programs and policies that will protect the public's interest in having available at reasonable prices plentiful supplies of food and fiber efficiently produced, and at the same time provide the basis for farm prosperity."

American Farm Bureau Federation 1954 Policies Adopted by the Official Voting Delegates of the Member State Organizations at the 35th Annual Convention

AGRICULTURAL POLICIES

A major objective of Farm Bureau policy is to create conditions which will make it possible for farmers to earn and get a high per family real income.

The problem of maintaining prosperity in agriculture is exceedingly broad and complex and involves many different lines of action not only in agriculture but also in other fields.

Fundamental national policies

National policies affecting farm production and markets must be coordinated to promote a realistic balance between markets and productive capacity. We are now in the situation of having a greatly expanded productive plant and shrinking foreign markets. It is urgent that policies be adopted which will expand agricultural markets to a point where they balance our production.

In addition the following broad lines of action are fundamental to the welfare of agriculture:

(1) Full employment, high productivity, and a good distribution of income after taxes must be maintained throughout the economy in the interest of the general prosperity, which is necessary for continuing farm prosperity.

(2) Monetary and fiscal policies which will contribute to the maintenance of a more stable general price level must be used effectively.

(3) Government policies which tend to place agriculture at a disadvantage with the rest of the economy must be corrected.

(4) The exercise of monopolistic power by any group—government, industry, labor, or agriculture—must be prevented.

(5) Practices which restrain trade must be prohibited.

(6) Policies which encourage rather than strangle foreign trade and investments must be followed.

Agricultural markets, programs, and services

The most satisfactory solution to the current farm problem is to expand domestic and foreign markets until they balance agricultural production. Any program which has the result of expanding agricultural output in the absence of a comparable increase in effective market demand for such expanded farm production is contrary to the interests of farmers. Likewise, programs which induce producers to continue inefficient production render a disservice to agriculture by contributing to the accumulation of surpluses, raising the average cost of production, and holding down per man productivity—all of which tend to limit the opportunity of farm operators to earn a good income.

Agricultural programs otherwise must be broad in scope and must include much more than emphasis on price supports and production adjustments. Provisions must be made for at least the following:

(1) Maintaining consistency between our foreign policy objectives and domestic price-support programs.

(2) An expanded program of research and education. Currently emphasis should be placed on projects to improve marketing, increase utilization, and reduce costs.

(3) Adoption of improved techniques and increased efficiency in the production, marketing, processing, and distribution of farm products.

(4) Adequate farm credit at a reasonable rate of interest.

(5) Adequate rural electric power and communication service at a reasonable cost.

(6) Assistance and encouragement for farmers to maintain and improve soil resources.

(7) Special assistance to help the operators of uneconomic farm units make necessary adjustments.

(8) Continuing efforts to improve diets through education and promotional work as well as special programs such as the school-lunch program.

(9) Continuation and improvement of basic Federal and State services and regulatory programs such as a crop and market news reports, outlook information, and certain types of grading and inspection work.

(10) Authority for the use of marketing agreements and orders where producers can demonstrate that such programs are feasible.

(11) Reasonable price protection through price support, production adjustment, and storage programs.

Support and adjustment programs

Price support and production adjustment programs have a place in an overall agricultural program because we as a nation sometimes fall short of achieving the more general policy objectives outlined above and because of certain conditions peculiar to agriculture which cause farm prices to fluctuate more widely than farm costs.

The goal we seek is a condition that will permit farmers to achieve full parity. Government programs for agriculture should be designed to help farmers achieve this objective but we do not consider it the responsibility of the Government to guarantee profitable prices to any group.

Farmers have no illusions that their interests are adequately protected by price guaranties alone. They fully understand that the volume that can be sold and the costs that must be paid are more important in obtaining parity than the Government support prices. Real farm income cannot be protected by policies which draw excessive resources into agriculture, create unmanageable surpluses, or cause artificial prices to be capitalized into land values.

The price-support levels now in effect for the basic commodities and some others are a carryover from programs designed to encourage production for World War II and the postwar rehabilitation period. Continuation of these wartime price-support levels in a period of shrinking foreign demand, accompanied by a purposeful delay in permitting farmers to use the machinery provided by Congress for them to bring supplies in line with demand, has created burdensome surpluses of some commodities. The drastic nature of the controls now required to deal with this situation is creating further problems. The time has come to review and improve existing programs to the end that they may make a more effective contribution to the solution of our current problems.

In revising and improving price support and production adjustment programs, it is important to consider not only our experiences with existing programs but also the differences that exist between commodities. For example, it must be recognized—

(1) That some commodities are produced for sale, while others are produced primarily for use as livestock feed on farms.

(2) That the shifting of acreage from protected crops under Government control programs creates serious problems for the producers of these crops and also has serious implications for the producers of unprotected crops This problem, of course, becomes more serious as the acreage involved increases.

(3) That some commodities are little involved directly in foreign trade whereas others need export markets, some are under pressures from imports, and still others must be imported to supplement domestic supplies.

(4) That some commodities face more competition than others from substitutes and synthetic products.

(5) That producers are more favorably disposed toward production controls and price supports on some commodities than on others.

(6) That some commodities are reasonably storable at moderate costs, while others can only be stored for short periods, at a high cost, or after expensive processing.

Finally, it must be recognized that no price-support program can be expected to work satisfactorily within the framework of our present economic system when jeopardized by huge stocks of commodities overhanging the market. With this in mind, we recommend a vigorously prosecuted program aimed at achieving a sizable reduction in present farm commodity carryovers. This should be achieved in a manner which will minimize disruption of domestic markets for current production and not risk destroying the possibility of maintaining and expanding needed foreign markets. We believe that in order to satisfactorily dispose of its present stocks, the Commodity Credit Corporation needs to enlist the initiative and enterprise of private traders throughout the world. There should be developed a comprehensive Commodity Credit Corporation sales policy aimed at making it clear that the liquidation of these stocks will be handled in an orderly manner and that private traders will be encouraged to participate in their disposal.

We must guard against legislation or administrative action which would demoralize markets or create unfair competition for producers either at home or abroad. However, the executive branch of the Federal Government and especially the Commodity Credit Corporation should not stand idly by and watch foreign outlets shrink when supplies are available in the United States. It requires much less effort to maintain an existing market than to regain one that has been lost. Accordingly, whenever supplies threaten to become excessive, action should be taken in a timely manner to permit United States farm products to maintain a fair and stable competitive position in world markets. This should include the use of CCC or other funds, whichever is appropriate, to encourage the movement of commodities directly into world trade through private channels before they become the property of the Government.

Price supports and production adjustment program provisions relating to such matters as grades, premiums and discounts, type and quality of commodities, should be designed to facilitate the production and marketing of the quantity and quality of products that can reasonably be anticipated to be in line with domestic and foreign market demand. The financial losses of the CCC resulting from commodities in storage going out of condition should be reduced by proper rotation of stocks to minimize quality deterioration and waste.

The following changes are needed to improve the workability of present legislation with respect to price supports and production adjustments:

(1) The temporary provisions of law requiring 90 percent of parity price support on the basic commodities without regard to supply should be allowed to expire at the end of the 1954 program. The principles of the permanent provisions of the Agricultural Act of 1949 with respect to variable price supports should be put into effect. In addition the law should be amended to provide that 90 percent of parity price supports shall be mandatory the first year that marketing quotas are in effect for any commodity immediately following a year in which marketing quotas are not in effect on such commodity. Thereafter, the level of price supports would be determined by the producers' response in bringing supplies in line with effective demand.

(2) The modernized parity formula should be extended to the basic crops which are still using the old formula when temporary legislation expires on December 31, 1955, with a provision that no parity price will be reduced more than 5 percent in any one year due to this change. Further studies should be made with a view to developing ways of improving the equity of the parity formula.

(3) By stockpiling fertility in the soil, we will build a "soil fertility bank" as a reserve for use in national emergencies. In contrast to a policy of accumulating large stocks of commodities, this approach will protect consumers without destroying the functioning of our market-price mechanism. Proper authority should be provided to require that producers devote a percentage of their cropland to soil-building crops or practices as a condition of eligibility for conserva-

tion payments or price support on crops which are not under marketing quotas. Increases in the acreage devoted to soil-building crops as a result of this recommendation should be subject to limitations comparable to those that may be imposed on the acreage diverted from crops under marketing quotas. When this program goes into effect, authority for the establishment of acreage allotments without marketing quotas should be abolished or suspended and producers given a clear choice between strict controls or freedom to decide how they will use their land.

(4) Producers of commodities subject to marketing quotas should have an opportunity to determine whether quotas are to go into effect whenever supplies reach levels specified in the law. The prerogative of the executive branch to avoid giving producers an opportunity to decide whether or not controls should be invoked to keep supplies in line with demand should be restricted and more clearly defined.

(5) The Secretary of Agriculture should be required to establish on an appropriate geographical basis, lists of crops which may not be produced for direct or indirect sale, or may be so produced to a limited extent, on acres diverted from any crop receiving price support when conditions are such that limitations on the use of diverted acres are necessary to prevent the production of excessive supplies.

(6) Under present and past acreage allotment and marketing quota programs, long-range crop rotations and good farm-management practices have not been given due consideration in the setting up of allotments for individual farms. In fact, farmers carrying out good soil-building practices have been severely penalized each time acreage allotments or marketing quotas have been invoked.

In order to reduce such serious errors and weaknesses in farm adjustment program administration, we urge that State and county committees be given necessary administrative discretion to correct the glaring inequities that so often exist between counties within the State and between farms within the county.

It should be fully recognized that farm programs are not static and deal with constantly changing dynamic factors with the result that they require constant review and improvement to keep abreast of developments.

Export-import trade promotion

Other countries need United States farm products. At the same time, these countries need to find additional markets abroad for their exports. The United States should take every reasonable measure to adapt its trade policies to these needs in such ways as to stimulate the export of farm products.

Because of (1) the shortage of dollars with which to purchase United States agricultural products and (2) the necessity of other countries to find export outlets for their surplus commodities, these countries are negotiating agreements to import agricultural products from nondollar countries which are willing to take manufactured goods or other exports in payment.

Preliminary investigations indicate that there are large possibilities for expanding trade between the United States and other nations through private enterprise, if private business and agricultural groups in America and in other cooperating countries tackle this problem cooperatively.

In the great agricultural areas of the United States comparatively few imported goods are offered for sale. Yet, these are the areas of the United States which produce most of the agricultural commodities exported and which are heavily dependent upon export markets for their prosperity. A genuine community of interest exists between United States producers and exporters who wish to expand agricultural exports and the manufacturers abroad who wish to expand their exports to the United States.

We recommend that the American Farm Bureau Federation promote policies and programs to expand mutually profitable trade by means of

(*a*) Encouraging negotiations of suitable arrangements with foreign governments that will assure the progressive elimination of dollar-import restrictions or other trade barriers applicable to United States agricultural exports in reasonable proportion to the expansion of United States imports of selected goods from these countries.

(*b*) Enlisting cooperation of agricultural cooperatives and other distributors of farm supplies, importers, and retail distributors to purchase and promote the sale of selected imported goods for which there is a potential market.

(*c*) Conducting special educational efforts, particularly in rural areas, by farm bureaus and agricultural export groups to expand mutually profitable trade.

(*d*) Providing a comprehensive trade promotion service for furthering the export of farm commodities and sound imports to pay for them.

(*e*) Assuring adequate credit to finance imports and exports.

(*f*) Sending trade missions composed of representatives of agriculture and other groups interested in exports and imports to countries with whom our trade is of strategic importance to appraise possibilities and means of expanding mutually profitable private trade.

Encourage private trade in export of farm products

The policies of the United States should be designed to stimulate and utilize the great resources of private traders to sell United States farm products throughout the world. Market information, credit, and all export services should be geared to aiding all private traders who engage in the export of farm products.

Maintenance of quality standards for exports

The export of poor quality, adulterated, or damaged products injures demand abroad. United States farm products should be known around the world for their high quality. Measures should be taken to assure maintenance of quality standards essential to merchandising an increasing volume of exports of quality farm products.

Export surpluses for economic development

Surplus farm products that cannot be sold abroad for dollars should be offered for sale and export through private channels, under limitations determined by the Secretary of Agriculture, in exchange for local currencies. These currencies should be used as a revolving fund for expanding international trade and increasing production, to buy basic materials, and to pay United States obligations abroad.

Special export programs

Congress should authorize limited use of surplus food and fiber for emergency or relief purposes. We favor limited authority to use surplus farm products through private relief agencies operating in foreign countries. However, for any substantial volume, we believe it is more practical and more humanitarian to sell surpluses for local currency which can be used to increase production for gainful employment.

Farmers have a responsibility to help industry, labor, and other economic groups properly to appreciate that the national welfare demands particular emphasis on agricultural exports now so that we may achieve necessary agricultural adjustments in an orderly manner while employment and production remain at a high level in this country.

Other Americans should realize—as farmers do—that failure to solve farm adjustment problems after World War I contributed materially to the general economic breakdown in later years.

Self-help programs

We favor broadening the present Marketing Agreement Act to cover additional commodities and the enactment of new Federal permissive legislation designed to facilitate farm-commodity advertising, promotion, and commodity-research activities under administration of the producers.

We also recommend full support of all self-help programs to expand markets through direct national advertising and educational work.

Section 32

Section 32 of the Agricultural Adjustment Act which makes 30 percent of each year's customs receipts available for programs to encourage increased utilization of farm products should be continued in effect as a permanent appropriation. The provision of the section which permits up to $300 million to be carried over as a reserve for emergencies should be retained. Section 32 funds should be used principally for perishable nonbasic agricultural commodities.

Market facilities

One of agriculture's basic needs is improvement in the efficiency of marketing. This is particularly true in the case of fresh produce. We therefore support legislation to provide mortgage insurance on a sound business basis for the construction of modern, efficient market facilities, with emphasis on local financing and self-liquidation.

Crop insurance

We strongly recommend that the crop-insurance program be placed on a sound actuarial basis and that the premiums charged under the program include reasonable charges for administrative expenses. We will continue to oppose any expansion of the crop-insurance program until this is done.

We further urge a careful study of the possibilities of converting Federal crop insurance to a reinsurance program for privately operated crop-insurance programs.

Crop and livestock estimates

Crop and livestock estimates are a valuable service and an important influence on farm-community markets. We therefore urge continued and diligent efforts to make these estimates as accurate as possible.

Sugar program

We urge that the Secretary of Agriculture use the discretion granted him under law in the redistribution of domestic area sugar-quota deficits to facilitate the marketing of sugar from the domestic areas which have supplies that can be used to fill such deficits.

We favor upward revision of domestic-area sugar quotas.

Chairman WOLCOTT. Mr. Kestnbaum.

Mr. KESTNBAUM. Mr. Chairman and members of the committee, may I inquire as the time and procedure for the rest of the morning? I would like to be guided accordingly. Having taken the instructions of the committee seriously, I have a statement that will take approximately 10 minutes.

Chairman WOLCOTT. I might say, Mr. Kestnbaum, that that is a guide only.

Mr. KESTNBAUM. Yes, sir. Then if I may be permitted after that to extend my remarks slightly, I would be grateful.

Chairman WOLCOTT. All right.

STATEMENT OF MEYER KESTNBAUM, CHAIRMAN OF THE BOARD OF TRUSTEES, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. KESTNBAUM. I am grateful for the opportunity to appear before this committee, to present the views of the Committee for Economic Development and to learn the views of my distinguished colleagues on this panel.

Although CED was fortunate back in 1946, in the accuracy of its predictions with respect to employment and unemployment, it is not in the business of making forecasts. One of the main points in our philosophy is the need for adapting policy to the fact that the future cannot be reliably foretold.

However, this does not prevent us from having ideas about the economic outlook. I should like to sketch my own opinion very briefly.

Purchases of goods and services by consumers, and by Government, and expenditures by business for fixed investment have been fairly steady over the past 9 months or so. However, 9 months ago production was in excess of final purchases; businesses were building up inventories. Today production is less than final purchases; inventories are running down. This shift in inventory policy is one of the principal causes of the decline in production and employment that we have had.

If the decline is primarily one of inventory adjustment it will not be severe or of long duration. Businesses will succeed in working their inventories down to desired levels. They will then adjust their orders to conform with sales. Production and employment will rise. Incomes will rise and this will tend to raise consumers' expenditures.

There are, in my opinion, a number of reasons for believing that the current inventory adjustment will remain moderate and will not precipitate a deep or persistent recession. These reasons are based on three factors:

1. A strong underlying investment demand, as evidenced by business plant and equipment projects, by machinery orders and construction contracts. The decline so far does not seem to have caused a cutback in plans for investment.

2. A strong financial situation; the banks and other financial institutions are liquid, business and farm debts are not excessive, and consumers' liquid assets are large.

3. Strong built-in supports to private-spending power, in the form of unemployment compensation, farm price supports, and a tax system that takes less out of the private income stream as private incomes decline.

This appraisal of the economic situation is similar to the diagnosis presented in the Economic Report of the President. Our general approach to the problem of economic policy in such a situation is, I believe, also similar to the approach suggested in the Economic Report.

A confident view of the economic outlook does not imply that no action need be taken. In fact, this confidence is based in large part upon the belief that certain actions will be taken—particularly that business and Government will behave in certain ways. Moreover, we should recognize the fact that this optimistic diagnosis, despite convincing evidence for it, may turn out to be wrong. This possibility does not call for drastic action now. But it does call for some preparation to act vigorously if we should face a more serious situation than is now apparent.

Our first reliance for keeping this current adjustment and other adjustments within moderate limits must be upon the vigor, imagination, intelligence, and responsibility of the American businessman. It is his function to devise and put into effect ways to utilize the large and growing productive capacity of the American economy in the satisfaction of the wants of the American people. This is a challenge to his resourcefulness and adaptability. It is more than developing new products to satisfy new and emerging wants. It is also a matter of applying improved production methods to lower costs and bring more products within the reach of more people. It is partly a matter of constructive selling.

American business has done this job well in the past. I believe it can do even better in the future. Furthermore, American business can do its job in a more stabilizing manner without losing any of its dynamic qualities. It can plan its investment programs with more attention to long-run growth prospects and less to short-run economic fluctuations. It can manage its inventories to keep constantly closer to the minimum efficient levels of stocks, avoiding speculation in booms and panic in recessions. It can learn to strengthen its financial position in prosperity to withstand the possible difficulties of recession.

American business, which has always been a great force for rapid economic growth, is becoming a force for steadier economic growth. The American businessman is becoming a better businessman, with more understanding of the long-run interests of his firm and of his social responsibilities.

The extent to which business policy can and will be stabilizing will depend in large part upon the conditions that are created by Government policy. Without attempting in this brief statement to present a catalog of Government policies, I would like to make a few observations on the general nature of the policies required.

To get full advantage of the stabilizing and recuperative powers of business in the face of declining economic activity three kinds of Government action are necessary:

First, favorable financial conditions for the maintenance and expansion of economic activity must be continued. Easy credit conditions should be maintained by the use of the Federal Reserve's traditional instruments of buying Government securities, lower rediscount rates and lowering reserve requirements. The prompt move by the Federal Reserve to turn its policy in an expansionist direction last May is one of the most encouraging signs of increased ability to deal with the problem of economic stability.

Second, the automatically stabilizing potentialities of the Federal budget should be fully achieved. In a recession, Federal tax receipts tend to fall off sharply; outlays for unemployment compensation, farm price support and some other programs rise. I believe that this automatic movement is now generally recognized as stabilizing, because it cushions the decline in the incomes that individuals and businesses have to spend.

One consequence of the automatic drop in receipts and rise in expenditures would be a deficit. If we are to get the full stabilizing effect of the budget we should not try to eliminate a deficit arising in this way. The CED believes firmly in the principle that the cash budget should be balanced under conditions of high employment. We do not believe in raising taxes in the attempt to balance a budget that is unbalanced by recession.

I may say in passing that we believe it is proper for the budget calculations to be based on the assumption that there will be high employment, even if the actual or forecast situation is not one of high employment. The basic test of the balance between receipts and expenditures is the balance that would exist under conditions of high employment.

There are a number of ways in which the built-in stabilizing effect of the budget could be increased. The unemployment-compensation system could be strengthened, provision could be made for prompter payment of individual income tax refunds, and business could be given more opportunity to offset losses against past profits. It seems hardly likely that action along these lines could be taken in time to have much effect on the current decline. But this is probably not the last economic decline we shall ever face. The sooner we take these preparatory steps the better.

Third, we should prepare to deal with the possibility that at some time we may encounter a deflationary impact so strong that it threatens to overrun our normal defenses, which are alert business policy, flexible monetary policy, and stabilizing budget policy. We do not have such a deflationary impact now, and we may not face one in the foreseeable future. But we cannot be sure, and it is the course of wisdom to be prepared. I believe that the willingness and ability of business to operate constructively in a way that promotes stability would be increased if there were general confidence that the Government was prepared for strong action to limit the severity of economic declines in appropriate circumstances.

The kinds of action for which we should be prepared, to meet such a situation in the future even though it is not now present or foreseen, include: Emergency increases of Government expenditures, including needed public works; emergency expansions of Government lending and loan guaranty operations, as in the housing field; and emergency tax reductions. For various practical reasons, the emergency reduction of taxes is likely to be the most powerful and usable of these instruments.

Consideration of such measures raises the most difficult problem in the whole field of economic stabilization. That is the problem of walking the tightrope between too much and too little. Action should not be so weak or so long delayed that people suffer avoidable hardship and the economy suffers avoidable strain. At the same time we should not seek to eliminate the adjustments that keep the economy healthy and we do not want to leap into action so early and so strenuously as to convert a mild and corrective adjustment into a serious inflation. There are dangers on both sides—a fact that is often forgotten when economic indices turn down.

The possibility of avoiding either extreme would be enhanced by improvement in the art of forecasting. Economic forecasting will never be an exact science. But with more study and more data some improvement could be made. Much of the necessary information can best be collected by Federal agencies.

However, our main reliance for steering a course between too much and too little must be on greater flexibility of action. While reserving strong measures for serious situations we should be able to bring these measures into effect quickly once the appropriate circumstances arise and to stop them quickly when the circumstances change. Increasing flexibility will make it safer to wait until a serious situation is clearly present before taking strong action. And increasing flexibility will make action safer because the action will be more readily reversible.

Increased flexibility requires advance preparation of several kinds. In some cases special administrative machinery may be needed. In the case of public works a standby reservoir of plans for needed projects of varied types is necessary. In other cases the best preparation would take the form of developing understanding and agreement on what should be done in what conditions. Such preparation is essential if prompt action in a serious situation is not to be impeded by differences of opinion that might have been resolved in advance.

To repeat, strong governmental action is not required now and is unlikely to be needed in 1954. It may never be needed. Nevertheless, we should review our position and make sure that we will be able to take effective action if the need arises.

I have touched on a few aspects of the complex questions of economic policy that are before your committee. The CED has been at work on a policy statement that explains at greater length our views on the problem of defense against recession. I hope that this statement, which we expect to issue in March, will be helpful to your committee.

Chairman WOLCOTT. Thank you, Mr. Kestnbaum.

Mr. REUTHER. Mr. Chairman, I think what your committee is looking for is light and not heat. But I would, if I might take just a minute, like to explain to Mr. Fleming where the CIO gets its information that leads to its conclusions about the farm program.

I think that Mr. Fleming's remarks were uncalled for and not in good taste, based upon what he said, because we did not mention his organization or any other farm organization.

Now, we are concerned about the American farmers because, as I said earlier, their prosperity and our prosperity are inseparably tied together. We want to do everything we can to help the American farmers enjoy prosperity and to be rewarded for their contribution to the economic well-being of our country.

Because we feel that way, we invited to a conference of the UAW-CIO held in Washington in December—and this is the program that came out of that, and I should be happy to see that the members of the committee get a copy—it is called Full Employment, Key to Abundance, Progress, Peace, we invited to that conference, where we had 1,200 delegates representing workers throughout the United States, a farm representative. He came from the State of Minnesota. He was a dirt farmer. For 12 years, he was the county chairman of the American Farm Bureau. He came there to talk about farm problems and he told us that the big farmers were pushing a sliding-price program, and then he went into great details.

At the CIO convention in December of last year in Cleveland, where again we wanted to hear the farmer's point of view and know his problem so that we could be sympathetic and cooperative and helpful, we had—I can tell you the name of the farmer who spoke at the UAW Full-Employment Conference was Mr. Robert Olsen, from Minnesota, who I was told was for 12 years the county chairman of the Farm Bureau. And this is what he told us.

At the CIO Cleveland convention, we had a Mr. Fred Heinkle, who is president of the Missouri Farmers' Association, a dirt farmer, representing dirt farmers, and he told us the same thing.

Now, these people are representative of working farmers, dirt farmers, and this is what they told us.

I think that when you try to help farmers, because you understand that their problems are tied together with the problems of city people. I think that we need to understand each other. I think that Mr. Fleming gets off base when he talks about the market place being the place where farmers will solve their problems. The free market operated in 1929 and 1930 and 1931 and 1932, and we all got into very serious difficulty.

Now, we of the CIO believe in freedom. We believe that human freedom is the most priceless possession that we have, and we believe that we in America must share a major responsibilty of defending freedom, not only at home, but throughout the world. I think you have got to understand that in our kind of complex society, the market place as an automatic mechanism cannot solve all of the problems, and that while we as a free people try to encourage maximum individual initiative in our economic life, and certainly every encouragement ought to be given for individual initiative, that does not absolve government as the agency of all society and all of the people in a free society of its responsibilities, because what we need to achieve in America is more balance between the maximum individual initiative and that degree of responsibility which the Government, of necessity, must take in order to protect the whole of society.

Now, we supported the REA, the farm electric co-ops. The Government took action. Does that impede or impinge upon the freedom of farmers?

The only freedom that that dealt with was freedom from drudgery. Millions of farm wives got electricity in their kitchens and got the benefit of all the new appliances. That was Government action. It was Government action helping the farmers meet their problems, not taking away their freedom, but giving them security, because economic security is an essential basis for human freedom.

The Communists would have you believe that you have to trade freedom to get economic security, that you have to put your soul in chains to get the wrinkles out of your belly.

Now, there are people who are wedded to the idea of laissez faire so firmly, so unrealistically, that they believe that if you want to be free, you have to be economically insecure. And we can solve our problems only by proving that freedom and bread are not incompatible, that you can both be free and economically secure.

As a matter of fact, economic insecurity will create the kind of world climate which will threaten both peace and freedom.

I think that what bothers me about Mr. Fleming's point of view and what bothers me about the underlying philosophy in many of these positions advanced by big business is that government is a negative force, that government is a force against the people, and that therefore what you need is no Government action in the economic field, because government is against the people and therefore you ought to have as little as possible.

I think that is antidemocratic. I think it is against the whole concept of the human family, because government is the enlargement of the whole concept of people working together, as Lincoln said, to do things together through their agencies of government which they cannot do individually for themselves.

Therefore, this idea that when the Government moves in to help meet a problem, that that is against the people, I say the Government can be a constructive, positive, helpful force if we have good government, and we will have good government in America if the people insist upon it.

Therefore, I am greatly disturbed by this negative attitude that Government is necessarily bad. It was not bad when it helped the farmers get low-cost electricity through the farm co-ops. It was not bad when it helped conserve the soil. It was not bad when it did all of these other things that had to be done. People could not do them, and the Government had to take a hand.

I want to say that as far as the CIO is concerned, we are not interested in attacking the Farm Bureau or anybody else. We want to work together to help do this job with everyone.

Mr. Fleming. Mr. Chairman, may I make a very brief comment?

Chairman Wolcott. Yes.

Mr. Fleming. First of all, I am glad that Mr. Reuther has decided that he isn't interested in attacking the Farm Bureau as an institution. That was my only point, for in his prepared statement he said, "It has the support of only large business-type farm groups."

We are supporting it. This is a direct challenge as to the representativeness of our group. I should like at this point, with your permission, to include in the record a statement which I made with regard to this proposition before our membership last December. Also a comparison by States of the number of farms which have a gross farm income of over $10,000, and a parallel comparison of Farm Bureau membership in each of those States, to help cast aside for good, I hope, the idea that somehow or other we represent only the big farmers.

Chairman WOLCOTT. That might be helpful.

(The material referred to follows:)

FARM BUREAU REPRESENTS

Farm Bureau represents and is representative. As we demonstrate in an increasing effective manner our unity of purpose and action, I am confident that those who oppose Farm Bureau's basic economic and political principles will step up their efforts to discredit the organization as being "unrepresentative" of American agriculture.

In this connection I should like to make brief reference to a book entitled "The Decline of Agrarian Democracy," written by Grant McConnell and published in 1953 by the University of California Press.

As a person glances through the book prior to reading it, one gets the impression that it is the product of extensive and exhaustive research. There are 494 footnotes making reference to specific sources from which information has been gleaned. Such documentation is impressive—i. e., before you read the book.

Now, let me make it clear at the outset that there are some things about the book that are good. In fact, by putting down in black and white the things to which I shall make reference the author may have performed a useful service. It may help us to understand better some of the misunderstanding that exists with regard to Farm Bureau and how it operates.

What is the book about? Its main theme seems to be that the Populist Movement and later the Farmers Alliance were great and good; that no organization of comparable virtue and vigor was developed to carry on; that instead the Farm Bureau movement got under way and has grown to a size and effectiveness that insures the decline of agrarian democracy.

The fact that the author associates 19th century bellyaching with democracy and apparently prefers this approach to policy development to the constructive program of the Farm Bureau today—working as we do for constitutional government with decentralized rather than centralized administration—is quite incidental so far as my discussion this morning is concerned.

Instead, I want to point out that the author of this book makes the erroneous assumption—and I emphasize the word "assumption" on purpose—that the Farm Bureau is an organization primarily of big farmers. He goes one step further. On page 56 he says, "The first and foremost point is that the Farm Bureau had no desire to become a mass organization." Later (p. 165) he states, "It is rather strange that an organization fed in part by education, with its presumed idealism, should develop on the principle of selection we have seen in the American Farm Bureau Federation."

In the pages that follow the author makes his point of view crystal clear. He states, "Thus, the narrowed basis of Farm Bureau organization approaches one of class within agriculture" (p. 170). "Selection of the class basis of organization was somewhat of a historical accident, but, once chosen, the class basis was inevitably intensified" (p. 171). "In effect, the Farm Bureau has become an association of already existing elites in agriculture joined on the basis of class" (p. 172). There you have it.

How silly can you get? Apparently, pretty silly!

What are the facts? There are so many available that I'm not certain which to use. The most obvious—and possibly the most decisive—are contained in our membership report itself.

According to the last Federal census, there are 493,254 farms in the United States with gross sales of all farm products in excess of $10,000. (This figure is before production expenses, taxes, etc., are subtracted.) Yet, we have 1,591,777 families as members of the Farm Bureau. Even if we had all farmers with gross sales of farm products of over $10,000 in the Farm Bureau—and you know we don't—we'd still have over two-thirds of our membership from among other farmers.

Let us take the State figures for a couple of States in each region to illustrate the point still further:

State	Number of farms with gross sales of farm products of $10,000 or over	1953 Farm Bureau membership
New Hampshire	1,335	4,842
New York	16,482	80,150
Indiana	18,556	107,992
Michigan	7,163	59,288
Alabama	2,918	73,796
Kentucky	5,849	74,106
Wyoming	3,240	7,131
Utah	3,162	7,511

These facts speak for themselves. You know the truth regarding this matter without my relating it to you. I mention it here today because everyone doesn't have the opportunity that you have to know these things from firsthand experience.

Let me illustrate. The Farm Bureau members in Iowa have known for years that their organization represented a cross section of Iowa farmers; however, recently they obtained some valuable—and irrefutable proof. For example, of the 39,087 members who attended local policy development meetings and who voted on resolution, 55 percent were owner operators and 45 percent were tenants. This is almost the exact relationship of owner operators to tenants as that contained in official reports for the State as a whole.

Farm Bureau membership tabulation

	Number of farms, 1950 census of agriculture	Number of farms with gross sales of farm products of $10,000 and over	Farm Bureau membership, 1953
Alabama	211,512	2,918	73,796
Arizona	10,412	2,722	3,013
Arkansas	182,429	6,374	55,718
California	137,168	33,351	59,063
Colorado	45,578	10,827	10,201
Connecticut	15,615	3,220	6,225
Delaware	7,448	1,977	705
Florida	56,921	5,209	13,634
Georgia	198,191	5,067	45,673
Idaho	40,284	7,306	13,119
Illinois	195,268	44,357	200,015
Indiana	166,627	18,556	107,992
Iowa	203,159	51,551	136,000
Kansas	131,394	17,850	67,984
Kentucky	218,476	5,849	74,106
Louisiana	124,181	3,809	13,839
Maine	30,358	3,607	1,063
Maryland	36,107	4,618	10,975
Massachusetts	22,220	3,811	6,000
Michigan	155,589	7,163	59,288
Minnesota	179,101	23,151	49,509
Mississippi	251,383	3,237	45,920
Missouri	230,045	12,294	48,131
Montana	35,085	7,992	1,517
Nebraska	107,183	18,843	15,401
Nevada	3,110	732	1,296
New Hampshire	13,391	1,335	4,842
New Jersey	24,838	7,292	8,516
New Mexico	23,599	3,841	7,599
New York	124,977	16,482	80,150
North Carolina	288,508	3,251	57,022
North Dakota	65,401	9,581	9,697
Ohio	199,359	13,983	47,194
Oklahoma	142,246	10,344	37,667
Oregon	59,827	7,742	6,160
Pennsylvania	146,887	13,799	2,832
Rhode Island	2,598	522	212
South Carolina	139,364	2,120	16,679
South Dakota	66,452	10,762	2,930
Tennessee	231,631	3,631	48,189
Texas	331,567	43,586	53,195
Utah	24,176	3,162	7,511
Vermont	19,043	2,251	7,701
Virginia	150,997	5,822	12,109
Washington	69,820	9,936	4,632
West Virginia	81,434	1,391	10,382
Wisconsin	168,561	12,785	33,719
Wyoming	12,614	3,240	7,131
Total	[1] 5,382,162	[2] 493,254	[3] 1,591,777

[1] Includes 28 farms in the District of Columbia not shown above.
[2] Includes 5 farms in the District of Columbia not shown above.
[3] Number of families that are members. To get approximate number of individuals multiply by 3.

Representative PATMAN. Mr. Chairman, the reason that I had something to say in this matter is that I deplore the fact that any farm group would take issue with any labor group that manifested an interest in helping the farmers. I feel that Mr. Fleming should recognize that there is possibly a conflict—not a conflict of interests but a difference of opinion—and that instead of calling a man a liar and just driving him the other way he should welcome the opportunity of having him in his camp. I know that the farm group is a minority group, and the farmers cannot do much by themselves. They must have other groups with them and the people generally with them. They certainly cannot get other people with them by calling them liars and abusing them just because they take issue with them.

That is the part that I deplore—that they would not do something to try to reconcile the differences without abuse.

Mr. FLEMING. I am sure the record is clear without my repeating it, but I would like to restate what I said. I said that the idea that we were not representative of American agriculture and the idea that we only represent large farmers is a lie. I did not in any way say that Mr. Reuther was a liar. I said that this thing that is being spread around by certain people to try to discredit our recommendations is a lie.

Representative PATMAN. I do not see the Farm Bureau mentioned here.

Chairman WOLCOTT. I think that clears up the situation.

Mr. REUTHER. That is right. I am not interested in pursuing this discussion, Mr. Chairman. The record is clear.

Chairman WOLCOTT. Senator Flanders.

Senator FLANDERS. I want to get into this disappearing argument to this extent. I am not familiar with the Farm Bureau the country over. I am familiar with it only in Vermont. There it completely represents farm families on family farms, and nothing else whatsoever. That is just Vermont. It is not Minnesota; it is not Missouri.

Now, Mr. Reuther, I have 1 or 2 questions which I wish to ask you. I will not take too long.

In the first place, let me say that I am completely sympathetic to the idea which you expresesd about the statistics of human beings—you did not put it that way—and that each human being represents a problem, and that we must not think of them as dead figures; we have to think of them as people.

I think this recent report that was gotten out yesterday or today of unemployment is one of the most interesting things we have. As I see it, it indicates that all of our figures for years past have underestimated unemployment, that the amount of unemployment we had last year and the year before and the year before that was probably much more than the figures indicated.

So we have to set our new sights on that question of unemployment.

Now, I was interested in your inventory of things to do. At least one of them means smaller income. Two of them require increased expenditures.

I am wondering whether you are setting it up in your own mind as a general principle that high employment can only be under conditions of deficit financing.

Mr. REUTHER. I certainly do not. I think that if we can gear the American economy to the needs of people and sustain full employment and full production, out of that greater expanded wealth that our technology makes possible, we can meet our budgetary problems without deficit financing.

If, however, in a given, limited period, I were making a decision between Government action to overcome unemployment and to meet the needs of humanity, as compared to avoiding deficit financing, I would take a little deficit financing for a short period. But in the long run, our economy is capable of providing full employment and higher living standards to the people and meeting the monetary needs of the Government in terms of operating on a balanced budget.

I do not believe in a continuing governmental deficit.

Senator FLANDERS. I am glad to hear you say that. In that respect, you seem to agree with Mr. Kestnbaum.

I would like to call attention to what seems to me to be the fact, that from 1933 to 1939, we tried in general the measures which you recommend without getting rid of unemployment. Have you any thoughts on that?

Mr. REUTHER. Senator Flanders, we never really tried the things that we believe in. We got warm a couple of times, but we never really tried them. The American people never really had the purchasing power that they really need to reflect their needs in practical, tangible demand.

We had to fight hard battles to get things like private pensions and minimum wage laws and things like that. We had never really tried the approach that I believe in. The approach that I believe in is the economics of abundance. If we know how to make things, we ought to learn how to distribute what we know how to make. We never tried that, even in the Fair Deal. We got warm during the Fair Deal, but never really tried it.

Senator FLANDERS. You would have done the same thing, but a whale of a lot more of it; is that the idea?

Mr. REUTHER. For example, if you have a 75 cents an hour minimum-wage law, I would cover more people with that law, and I would raise that. Last November, I had a Catholic priest from Louisiana come to my office in Detroit, Senator Flanders, and he came there to ask me to do something about helping hungry children in Louisiana, because their parents were on strike. Do you know what they were getting? $17 a week for a 54-hour week. This was in 1953, when we know how to split the atom, we know how to make pursuit ships go faster than sound. People are being asked to raise a family on $17 weekly.

I would do something about that. I would wipe out the slums of America. Go over to Sweden and see what they have done, and why their juvenile delinquency is way down compared to ours. It is understandable. They have cleaned out the slums. If they can do it with limited resources, why can't we do it?

Senator FLANDERS. I am not arguing with you on that. I am just simply trying to find out whether a permanent deficit is necessary for maximum employment. And I would like to make this observation and get your opinion on it.

The only time that unemployment dropped during that period of 1933–39 perceptibly was in 1936 and 1937, when it dropped 3 million, and that was a period when business initiated a recovery. It was not a recovery by purchasing power.

Representative PATMAN. What year did you say?

Senator FLANDERS. 1936 and 1937.

Representative PATMAN. The veterans' bonus was paid in 1936, June 15.

Senator FLANDERS. There was more to it than that. The veterans' bonus did not put 5 million people to work.

Representative PATMAN. It paid over a billion dollars in cash.

Senator FLANDERS. But it did not put 5 million people to work.

Instead of encouraging a business recovery at that time, the then administration put further clamps on business, particularly in the undistributed profits tax, which again was an endeavor to siphon funds into consumer spending.

It seems to me, Mr. Reuther, that in this present situation, in which we are trying to do both, both improve consumer purchasing power and encourage business expansion and the employment that goes with it, we are following dictates of wisdom as based on our experience in those many years without any particular improvement in unemployment.

Representative PATMAN. If the Senator will look at table G–15 on page 182 of the President's Economic Report he will note that the statistics do not support his recollection that the only time unemployment dropped perceptibly in the period 1933–39 was in 1936 and 1937 when business initiated a recovery. The official tables in this report show that unemployment was reduced steadily and substantially in every year after 1933. In 1934 unemployment was reduced by 1.5 million; in 1935 by 730,000; in 1936 by 1.6 million, and in 1937 by 1.3 million. In these four years the New Deal reduced unemployment by 5.1 million or 40 percent below the 12.8 million unemployment total inherited from the Hoover administration. The New Deal program for recovery as this record indicates was undeniably effective in stimulating both consumer demand and business activity. The recession in 1937 was not due to the failure of the New Deal to stimulate consumer purchasing power but rather to the failure of the New Deal to curb the power of the monopolies and the bankers. Unrestrained monopolies administered price increases in 1936 and early 1937 which dissipated a good deal of the purchasing power injected by the recovery program into the hands of the people. In March of 1937 the steel industry advanced the price of all steel products the same as they did in June 1953.

Monopoly administered price rises were seized upon by bankers as proof of the inflationary effects of New Deal spending and cheap credit. Though substantial unemployment still existed—7 million—Mr. Roosevelt unwisely moved to reduce Federal expenditures and the Federal Reserve sharply contracted credit.

Senator FLANDERS. While I concede the greater precision of the figures which Mr. Patman cites on the trend of unemployment during the mid-1930's, I do not feel that they materially alter the point which I am trying to make, namely, that the encouragement of consumer spending did not prove to be a complete panacea for the problems of the 1930's. It is true that employment by mid-1936 had shown some recovery so that there were about 3 million fewer unemployed than at the very depth of the depression. It is true also that after mid-1936, when the soldiers' bonus was paid, unemployment continued to shrink by another 2 million. Much of the effect of this improvement was undone in 1938 when unemployment rose by 2.7 million. Granting that administered price changes, monetary actions, and a host of other things may have entered into the situation, I still do not feel that a program which in the 5 years from the bottom of the depression until the rumblings of war in Europe reduced unemployment by only 2.5 million, leaving nearly 10.5 million still unemployed, can be regarded as having demonstrated its efficacy in curing the evils of unemployment.

Mr. REUTHER. May I comment on that, Senator Flanders?

Senator FLANDERS. That is why I suggested that you consider it.

Mr. REUTHER. I think it is accurate to say that you are both working on the purchasing-power problem in terms of low-income families on your tax approach, and also on the question of expanding productive power in terms of incentives to industry, excepting that in the case of industry you are piping in the relief and in the case of the consumers you are giving it to them with an eye dropper.

It is true that they are both getting a measure of relief. However, for each dollar which tax cuts are giving to low-income consumers, businesses and high-income receivers in the savers' class are getting $5. I have here a table which shows how the tax cuts made this year, including the proposals passed to date by the House Ways and Means Committee, divide up:

[In billions]

	Tax cuts to business and to savers	Tax cuts to consumers and spenders
End of excess profits tax	−$2.300	
Individual income tax reduction [1]	−.750	−$2.250
Ways and means proposals	−3.005	−.260
Increased payroll tax		+1.300
Total	−6.055	−1.210

[1] About ¼ of total income taxes are paid by taxpayers with incomes of $25,000 a year or more.

I think on this whole question of the long-range economy of ours, we have to recognize clearly that the economy goes through cycles. You get the impact of advanced technology—electronics, for example——

Senator FLANDERS. When you say it goes through cycles, does that mean that you would proceed with the notion that we inevitably have high periods and low periods?

Mr. REUTHER. No. You have not given me a chance to complete my thought.

Senator FLANDERS. I just wanted to make sure that you took that into consideration in your answer.

Mr. REUTHER. I intend to nail that point down, if you will give me a chance.

What we do is: We go through cycles in the impact of technology upon our economy. You do not get an even feed into the economy of new technology. Electronics, for example, made a great impact in the technology of the auto industry. And during that period, in order to build into our productive capacity this new technical development called electronics, we needed greater capital expansion to make that possible. Having built in electronics, we have greatly increased the productivity of our economy, and at that point we have to shift the emphasis to expanding purchasing power.

Then we go along at that kind of plateau, and then a new impact comes along. We call it automation now. You ought to go through the new Ford engine plant. You can't find the workers. They machine a six-cylinder Ford engine block from the rough casting to the finished motor block in 14.6 minutes.

Senator FLANDERS. By the way, that is not new. It started with the cylinder castings of the aviation engine back early in the war. That is not a new thing, but it is an interesting thing, nevertheless.

Mr. REUTHER. It used to take the Ford Motor Co. some years back—they did it in 24 hours, and that was hailed as an unprecedented technical achievement. The Rouge plant does it in 9 hours. The new plant does it in 14.6 minutes.

Now, we think that is good, providing the people get the benefit of it, also.

Now, the point I am trying to make is that the emphasis between expansion of capital goods and the emphasis on the expansion of consumers' purchasing power is not a static relationship. It is not something that goes on permanently at a fixed relationship one to the other. There is a period in which technology requires that society expand and put more emphasis on greater capital investment. At that point, it deemphasizes the consumer aspect. You get the new technology into your economy. Having done that, you make your economy more productive, and you of necessity then have to expand the consumer aspect of it. Now, you get it in balance again. Then a new technology comes along. You reshift the emphasis to capital investment. Then you have got to go right back. We are now in a period, not where the great emphasis is needed for capital expansion, because, as I said, automobiles, 8 million capacity, 5 million customers; steel industry, now operating at 74 percent of capacity.

What is true of steel is true of rubber, because when we make a million and a half less passenger cars, that is 7½ million less tires that we need.

It is true of textiles. It is true of plate glass.

So what we need in this period of our economic development is a great shift in emphasis to the expansion of the purchasing power base of our economy, to recreate a balance between productive power and purchasing power, and then at the point where the productive-power thing is unbalanced, we then shift back to the question of expanding our capital investment. And if you shift the emphasis in the wrong direction, which is exactly what the administration is doing in this report, you merely intensify the imbalance, and you create a very serious difficulty.

Senator FLANDERS. Let me say that, as in the case of the Farm Bureau, my experience industrially is limited. The only mass-production industry with which I was acquainted when I was a businessman was your own. I was very well acquainted with that. I do not know about rubber. I do not know about steel. But I do know about every industry into which machine tools go, and know that they are worn out and out of date. And I feel very strongly that improvements in employment can come from replacing that out-of-date machinery, and that in that particular line of equipment the requirements are very great, indeed.

Mr. REUTHER. I share that point of view. And I am one who has fought hard. I have opposed the whole philosophy that you can get higher living standards out of scarcity. The only way American workers can have more things is if they help produce more things.

Therefore the more productive the tools we have the more we can create and the greater prosperity we can share with other people. I am with you on that, Senator Flanders.

Senator FLANDERS. All right.

Mr. Chairman, I am not going to ask any more questions, but to express the hope that Mr. Reuther can come here at some time with the statement that now things are such that we do not have to have a deficit economy in order to maintain employment.

I hope that you can come here some time with that statement. But I am just wondering how long it will be.

Mr. REUTHER. That depends on what you do, Senator Flanders, and the other people. If you just adopt the kind of constructive program that is being advanced, the day can be pretty quick, and you do not have to wait too long.

Senator FLANDERS. I did look for 7 years with a great deal of hope and a great deal of disappointment between 1933 and 1939, 6 years, on this endeavor to increase employment by complete concentration on purchasing power, and it left me a little bit discouraged. I am through, sir.

Chairman WOLCOTT. Mr. Kestnbaum has an observation.

Mr. KESTNBAUM. Thank you. Senator, may I expand my comments briefly?

Just parenthetically I should say that when we came in, I was satisfied to leave this microphone before Mr. Reuther, because I knew he would have greater use for it than any of us. And this is said in the best of spirit, because Mr. Reuther happens to be one of the labor leaders of this country whom I admire tremendously.

I share his views as to the objectives of the economy and the need for understanding American life in terms of the individual citizen.

I go along with him on many of the things he has had to say about the kind of action that is required at the present time. I think we have some differences of opinion as to the how and the where and the when of certain actions.

Now, there were some observations made that perhaps need just a note or two.

In the first place, I do not believe that American business, any appreciable section of American business, is cheered by the prospect of large-scale unemployment. The notion that businessmen would like to see unemployment so that they can have an easier labor situation simply does not correspond to the facts at the present time. I do not believe that any responsible businessman feels this way, and I believe that this is something that was worn out a long time ago.

Furthermore, I do not believe that the administration or the Members of Congress, regardless of political affiliation, are oblivious to the effects of large-scale unemployment or are unaware of its impacts on American life or are unwilling to take appropriate Government steps to correct it.

Our differences of opinion arise from the fact that we have different views as to what are the appropriate areas of action for Government, for business, for labor organizations, for farmers, and for farm organizations. It is quite natural that every one of these groups should look at the problem in terms of its own interest. This does not surprise anyone.

May I allude to 1 or 2 comments that were made by Senator Flanders?

It is interesting that in a period in which the relationship between Government spending and the total output of the economy was probably greater than in any period in history, we did not solve the problem of unemployment. I think it is noteworthy that in spite of the figures recently released—and I do not wish to minimize the importance of these figures—the fact is that we have achieved since 1940 and 1941, since our entry into the war, and notably since the end of the war, a very remarkable adjustment in terms of maintaining high employment for our people.

This can be done. I fully agree with Mr. Reuther. This can be done without excessive deficit financing, if business meets its responsibility, if Government meets its responsibility, and I hope Mr. Reuther will understand the spirit in which I say, if labor also meets its responsibility.

Mr. REUTHER. That is right. I agree with that.

Mr. KESTNBAUM. Now, if there are any fundamental differences of opinion, I think they arise on two points:

One, can we solve these problems primarily by Government spending?

Two, is the market the best guide to the allocation of resources, or are we to have some other device for allocating resources, and are we to rely primarily on pumping purchasing power into the economy through the consumer, or are we to rely on the kind of service that is rendered by the business system, which tries to find customers to stimulate needs and to sell goods through making goods attractive in terms of current wages?

Now, there is room for differences of opinion. But as a businessman, I hold that by and large you get the best results when business assumes its proper role, which is that of a servant of society, by finding and discovering the needs of people and making them available in terms of the lowest possible cost.

This is what has built our economy. And I am afraid that if we had applied the high purchasing power theory and broad distribution of benefits theory, we would now have a very comfortable economy on an extremely low level with few of the advantages which we now have.

In other words, the theory that you distribute the benefits currently, I think operates against the possibility of the highly technical development which we have achieved.

Senator FLANDERS. Mr. Kestnbaum, might I inquire whether in your judgment we have in Great Britain at the present time an illustration of a maximum distribution of purchasing power, and whether it seems to be a favorable situation from the standpoint of raising the standards of living in that country?

Mr. KESTNBAUM. Senator Flanders, I believe that Great Britain illustrates an attempt to solve these problems through the application of this theory, and I recall that Sir Stafford Cripps, in a speech made a few years ago, pointed out that England had gone about as far as it could in raising standards through the broader distribution of wealth, and that from now on—and these are his words—"We shall have to improve our standards through greater productivity."

I think the contrast of these two societies, although there are many special features of the English economy which we do not have—that is to say, we have a much better balanced economy than that of Great Britain—a comparison of the attitude of business, a comparison of the spirit of the people with respect to productivity, illustrates the difference that I am trying to point out in the vitality of the American economy.

One of the points upon which I have always admired Mr. Reuther is that he has always favored technological development in his industry. This is significant, because it is technological development which has reduced cost, which has accounted for this productivity, and while it creates temporary problems, in the long run this is the factor which has raised the standards of American life.

I think that some provision can be made to meet these problems without standing in the way of technological advancement. We can look to the future very optimistically in terms of the tremendous output of the American economy.

But to argue that we must stop developing our capacities, to argue that we must arrest technological development or that we must now incur deficits for the sake of distributing more purchasing power on the theory that we have achieved our full stature is just not sound because, while the automobile industry may have done a rather remarkable job, we have large industries, a great number throughout the country, and many, many small ones that need new machinery, new equipment, new plants so that they can produce more efficiently.

This is the factor which is likely to provide the great stimulus that will bring us out of this current trend; and, if we can proceed, we are likely to arrive at a new stage in expansion which would be far sounder than any effort to stimulate consumer spending in terms of income because, I should like to point out, the American people are saving a larger portion of their income than ever before.

Currently it is 7 percent. This suggests that it is not lack of purchasing power but lack of desire and a willingness to buy goods that is holding back.

Representative PATMAN. I desire to invite your attention and the attention of the committee and also the members of our panel, if they do not have time to discuss it, to consider extending their remarks and discussing it, that there is a new concept of the Employment Act and the Economic Report of the President that was transmitted to Congress.

I refer to page 112, the phrase, "new concept that is emerging," and so forth, "in the practical art of government."

That new concept is that the price level should come ahead of the Employment Act of 1946.

Senator FLANDERS. What part of the page?

Representative PATMAN. The first part, where it says, "the new concept."

Senator FLANDERS. Oh, yes; the top of the page.

Representative PATMAN. It is saying something there about the new concept that was not written into the Maximum Employment Act.

I have before me a copy of the Employment Act of 1946 stating the declarations of policy, and nowhere in that act does it state that the stable price level should be taken into consideration before maximum employment. But I happen to know a little something about that act. I was the first witness before the congressional committee considering it. I was the author of the House bill on maximum employment—at first, "full employment," and we changed it by agreeing to the word "maximum" instead of "full," and then we did not have so much opposition to it. I know that a stable price level is not a consideration written into the act at all.

The President, or rather his advisers—I am not charging the President directly and personally with it—has written this new concept to mean that the stable price level should come in first.

Senator FLANDERS. Will you refer us to that statement, that place?

Representative PATMAN. Yes, sir; I will.

Senator FLANDERS. It is not in the reference that you have given us.

Representative PATMAN. All right. I respectfully differ with the distinguished gentleman from Vermont, and I am trying to make it short, and I suspect that in my endeavor to be brief, I have not made it as plain as I should. But I will read it:

> The new concept that is emerging in the practical art of government, as chapter 3 may already have suggested, is to subject every act of proposed legislation or administrative decision, as far as that is humanly possible, to review from the standpoint of the contribution it is likely to make, whether in the immediate or a more distant future, to the attainment of an expanding economy with maximum employment and without price inflation.

You see, that phrase, "without price inflation," is the stable price level part. Now, they do not use the language, but the phrase itself indicates what it is. And what I object to is putting that ahead of maximum employment.

Senator FLANDERS. I will call your attention to the fact that it is behind the statement of maximum employment and not ahead of it.

Representative PATMAN. I know. But it presupposes and predicates the former statement upon the fact, "and without." In other words, it puts it ahead. It puts the last first.

Senator FLANDERS. I would like to ask the same question I asked Walter Reuther. Do you feel that you cannot have maximum employment without inflation?

Representative PATMAN. No. I am against inflation, as you know. No Member of Congress has a better record against inflation than I have, even including the Senator from Vermont. I am against inflation of any type or character. I have voted that way when it was unpopular to do so all throughout the war and at other times. My views on inflation are well known.

May I also invite your attention to the fact that 18 New York banks in their book, The Federal Reserve Reexamined, have presented the same new concept. This book was published in 1953, and now the Economic Report of the President has adopted the concept which it presented.

Senator FLANDERS. I am sorry, but I do not find your particular analysis of that concept in this document.

Representative PATMAN. I am sorry that you do not see it. But, if the Senator will study it as he always studies things, he is going to see it. The Senator is a great student.

Senator FLANDERS. The new concept in this chapter is specifically stated as being one of not waiting until things are desperate before we do something, but getting at things as they occur.

I call the attention of the Representative from Texarkana, a town for which I have a very high regard for private reasons, to the fact that that new concept is defined here, and it is defined in the paragraph at the foot of page 111, and it is under the heading "Need for Constant Vigilance and Flexibility."

Representative PATMAN. The gentleman is very adroit, as usual.

Senator FLANDERS. I will say to the Representative from Texarkana, then, there are two of us.

Representative PATMAN. I am putting the statement of the banks in the record, and we will probably discuss it more.

(The reference referred to is as follows:)

It is desirable that the so-called employment mandate of the Employment Act of 1946 be amended. It should indicate clearly that in the long run a relatively stable price level is of paramount importance in maintaining a healthy and stable economy and, therefore, the aim of maximum employment, production and purchasing power is to be achieved within the framework of a relatively stable price level. Only within this framework can full employment of manpower be a feasible criterion of monetary policy. (The New York Clearing House Association, The Federal Reserve Reexamined, 1953, pp. 18, 19.)

May I, before I forget it, in mentioning what business did in 1936 for recovery of the country, say that I hope that the gentleman from Vermont does not overlook the most important fact that between 1933 and 1953 the country was aided in its economic recovery by the payment of the adjusted service certificates to 3,500,000 veterans in cash on the same day, June 15, 1936. This put tremendous buying power in the hands of the people in every section of the Nation. It was the Reserve System that came along and doubled the reserve requirements of banks and thereby put on the brake so quickly and so suddenly that it threw our country into a tailspin.

Senator FLANDERS. I might interject that at that time the Federal Reserve System was completely in the hands of the President of the United States.

Representative PATMAN. I do not think so at all, because they declared they were independent. They were setting up a fourth branch of government. They do not think that they are under the President of the United States.

Senator FLANDERS. They do not know. Perhaps. I am not sure. But, as a matter of fact, the New Deal cannot escape the responsibility for everything that happened governmentally between 1933 and 1938.

Representative PATMAN. The New Deal must be pretty good, because the Republicans have not repealed a single New Deal law or proposed the repeal of one.

Senator FLANDERS. Mr. Chairman, may I get into a little political argument here, or do you advise against it? I am perfectly willing to get into it, because——

Representative PATMAN. Let me finish this other point, and then I will yield to the gentleman.

Senator FLANDERS. All right.

Representative PATMAN. Now, the other point is about savings. I respectfully refer you to a book by Dr. Moulton, of the Brookings Institution, who was certainly not a New Dealer. I read a paragraph from page 117 of his book, Controlling Factors in Economic Development:

The rapid growth of money savings as compared with consumer expenditures in the twenties retarded rather than accelerated the growth of productive capital. The excess savings which entered the investment market served to inflate prices of existing capital goods and to produce financial instability. A large relative flow of funds through consumptive channels would have led to a larger utilization of existing productive capacity and also to a more rapid growth of plant and equipment.

I am inviting your attention to this to show that it is exactly on all fours with what is happening in our country today. The present program is not encouraging, through consumptive channels, a larger utilization for existing productive capacity through more purchasing power, but starts at the top by helping the large income taxpayers.

Senator FLANDERS. I did not get the years. What years are you referring to?

Representative PATMAN. It really does not make any difference if the principle now is the same.

Senator FLANDERS. Was it pre-1929 or post-1929?

Representative PATMAN. Yes, before 1929.

I say it is on all fours with the present situation, because then the savings were accumulating and they had no place to go except in the speculative market. In other words, they did not have a good place for investment purposes, and they had to just bid up the prices of existing stocks and bonds, which caused the boom and the eventual collapse.

What I am arguing is that we should pay some attention to this and not permit the same thing to happen over again, as is starting right now.

Senator FLANDERS. I found myself in complete agreement with the Representative from Texarkana in everything except whether or not it is starting right now. I have no brief for absolution for the speculative element in American business or for the wisdom and foresight of the productive element or for any element of American society for the period which ended in 1929. I refuse to be tied up with that lot.

Representative PATMAN. Your party is tied up with it.

Senator FLANDERS. The party has long since shaken itself loose, and the party to which my friend from Texarkana belongs is still tied up to the period 1933–39.

Representative PATMAN. But you are going right back and adopting the same thing that you now say you are not in favor of.

Mr. REUTHER. I would like to point out, if I might, to Senator Flanders, if you go back and read some of the things that Secretary Mellon said in 1924—and I will give you a copy in case your research department would not be able to find it—and what Secretary Humphrey is saying in 1954, they could have been written by the same ghost writer; then I suggest you read what President Coolidge said——

Senator FLANDERS. The ghost writer must be an old man now.

Mr. REUTHER. That is right. Republicans last a long time.

And I could be unkind and say that they do not learn much.

Then take what President Coolidge said—I am serious about this—what he said in February 1924 and read what President Eisenhower has said in his message, and they are absolutely parallel. The phraseology is almost the same.

I would like to put it in the record and give you this copy.

Representative PATMAN. I have one other suggestion, Mr. Chairman, and I will be through.

This committee in 1949 had a Subcommittee on Volume and Stability of Private Investment. I think the subcommittee made a fine report. I would like to suggest that the chairman of our committee consider appointing another committee to bring that study up to date in 1954. I think there is a real need to bring about a better understanding of expanding opportunities for investment so that people will not go into the stock market and just bid up the price of existing securities, thereby causing a boom to be followed by the inevitable bust. I think we would render a great public service if we would bring that report up to date.

Senator FLANDERS. Mr. Chairman, I hope that these excerpts from Secretary Mellon, Secretary Humphrey, and President Coolidge will be put in, because, on quick examination, they seem to agree completely with Mr. Reuther.

Mr. REUTHER. I suggest that you put them in so that people can study them.

Senator FLANDERS. Yes. Let us do that.

Chairman WOLCOTT. They will be inserted in the record.

(The statements referred to follow:)

THE TRICKLE-DOWN THEORY OF PROSPERITY, 1924 AND 1954

1924

SECRETARY MELLON

"A sound tax policy must take into consideration three factors. It must produce sufficient revenue for the Government; it must lessen, so far as possible, the burden of taxation on those least able to bear it; and it must also remove those influences which might retard the continued steady development of business and industry on which, in the last analysis, so much of our prosperity depends."

Source: Taxation: The People's Business by Andrew W. Mellon, MacMillan, 1924, page 9.

1954

SECRETARY HUMPHREY

"In addition to the $5 billion tax cuts of January 1, we are recommending a general revision of the tax system. It will do two principal things:

"(1) It will make the tax burden fairer for millions of individuals by removing the more serious tax inequities and complications.

"(2) It will stimulate production and create bigger payrolls and more and better jobs by reducing restraints and by encouraging initiative and investments."

Source: Statement of Secretary of the Treasury George M. Humphrey to the Joint Committee on the Economic Report, Washington, D. C., February 2, 1954.

1924

PRESIDENT COOLIDGE

"Immediately upon my taking office it was determined after conference with Secretary Mellon that the Treasury Department should study the possibility of tax reduction for the purpose of securing relief to all taxpayers of the country and emancipating business from unreasonable and hampering exactions. The result was the proposed bill, which is now pending before the Congress."—President Calvin Coolidge to the National Republican Club, Waldorf-Astoria Hotel, February 12, 1924.

Source: Appendix E, taxation: The People's Business, by Andrew W. Mellon, MacMillan, 1924, page 219.

1954

PRESIDENT EISENHOWER

"The tax system should be completely revised. * * *

"We must restore conditions which will permit traditional American initiative and production genius to push on to ever higher standards of living and employment. * * *

"They [the proposed revisions] will reduce the more serious restraints on production and economic growth. They will promote investment, which provides new and better methods of production and creates additional payrolls and more jobs."

Source: Tax Message to the Congress, January 21, 1954.

Mr. REUTHER. Mr. Chairman, since we are limited in time, I wonder if I could put into the record, so that the committee would have a copy of it, and it would be a part of this record, a copy of this program that we worked out for full employment, because it does deal with the very point that Mr. Kestnbaum talks about.

We believe in capital expansion. We know that we can have higher living standards only if industry expands to make that possible, and we worked out a national budget dealing with construction and industry and the whole works. And I think it is an important source reference, and if I may put it in the record, I would like to do it, Mr. Chairman, since we haven't got time to develop all these things here orally.

Chairman WOLCOTT. Is it voluminous?

Mr. REUTHER. No. It is very large print and a lot of illustrations. It is not very large.

Chairman WOLCOTT. I think perhaps it might be helpful if we can find the room for it. We will consider it.

(The program adopted by the UAW-CIO Full Employment Conference, December 6–7, 1953, follows. The complete conference report is available in the committee files.)

TO KEEP AMERICA STRONG AND PROSPEROUS, KEEP AMERICA AT WORK

A PROGRAM FOR FULL EMPLOYMENT AND FULL PRODUCTION IN PEACE-TIME

Whereas the American economy and its ability to produce ever-increasing goods and services is freedom's greatest material asset. Our economy, with its ingenuity and technical know-how, its vast material resources, and its skilled labor force, together with our free political institutions, provide the American people with the tools with which to demonstrate to the whole world that within a free society people can solve their economic problems and satify their material needs without sacrificing their political or spiritual freedom. But side by side with our ability to produce we must demonstrate the ability to distribute the goods we can produce, the ability to maintain full employment and a steadily rising standard of living for ourselves, the ability to give leadership to other nations in raising living standards and extending free democratic institutions throughout the world. If we permit our economy at home to be weakened, we shall imperil the worldwide battle against Communist dictatorship and other forms of totalitarian tyranny.

Storm signs on the horizon

Whereas signs are all too abundant at the present time that danger spots are developing and spreading in our economy. American farmers are already being forced to lower their living standards because farm prices have been steadily falling while the prices of many goods farmers must buy continued to rise. We do not forget that the depression of 1929–33 was heralded by a similar drop in farm income.

In many areas of industry, employment is beginning to falter, both through layoffs and through shortened workweeks. Among industries organized by the UAW-CIO, the agricultural implement industry is already suffering a serious recession which threatens to continue for an indefinite period. In the automobile industry, partly because of the reckless and irresponsible production policies of the corporations in the earlier part of the year, auto workers are being laid off with no recall dates; others are working short weeks, and the industry is returning to its prewar practices of stretching out shutdowns for inventory and model changeover purposes. Predictions are being made that automobile production will be curtailed through 1954. Cutbacks in defense production are affecting workers in aircraft, tank, and truck plants, and adequate plans are not being made to take up the slack through increased production for civilian needs.

In many other industries unemployment is also developing or threatening to develop. Inventories are increasing as unsold goods pile up in the warehouses of manufacturers and wholesalers, and on the shelves of retail stores, because millions of American families do not have sufficient buying power to purchase all the goods that American industry is able to produce.

For the past year, high sales have been maintained only through a great expansion of installment debt which cannot continue to grow at present rates without endangering our economy in other ways. Installment credit is no adequate substitute for genuine sustained purchasing power. We cannot build prosperity and economic stability upon foundations of consumer debt.

Defeatist attitude of certain big-business leaders

Whereas leaders in business, finance and industry in increasing numbers are predicting lessened production and more unemployment ahead, whether they call it a little recession, an adjustment or even, as some have dared to do, a recovery. To date, no recognized business leader has produced any realistic program to increase the purchasing power of the American people so that all the goods we are capable of producing can be sold, and the wheels of industry can be geared to schedules of full production and employment. Most business leaders seem to accept a slowing down of our economy and a reduction in our living standards as unavoidable, an act of nature that nothing can prevent. Some of them even seem to welcome it as a means by which they can restrict labor's gains and impose speedups and wage cuts on their workers.

The Communists also believe that an American depression is inevitable. They tell hungry and desperate people throughout the world that America cannot maintain prosperity in peacetime, that our prosperity depends upon war production. The Communists also desire a depression in this country because it would weaken the faith of Americans in themselves, it would weaken the faith of the rest of the free world in American leadership, it would weaken the faith in democracy and free institutions; it would give Communist propagandists a chance to claim with renewed strength that their panaceas provide the only solution to the world's troubles.

Depression is not inevitable

Whereas the UAW–CIO does not share these defeatist and irresponsible views that even a little recession is either inevitable or desirable. We, at least have learned the lesson of the great depression of 1929 to 1933. We know what was the fundamental cause of that depression. And when we see the same storm signs on the horizon again, we know what steps must be taken to prevent it.

We recognize that the danger exists. Nothing is to be gained, anl everything may be lost, if we follow the ostrichlike policies of the Coolidge and Hoover administrations and stick our heads in the sand and refuse to look facts in the face. Nor is it realistic to delay action that is needed now in the hope that our economic setback will only be a minor adjustment. Even a little or manageable depression could seriously disrupt the economies of our friends and allies throughout the free world, and tip the balance of the cold war in favor of world communism. The American economy is a delicate and intricate mechanism, which once out of balance could all too easily spiral downward out of control. If a little recession resulting from insufficient buying power in the pockets of American workers and farmers is met by no more constructive policy than layoffs and short workweeks, these measures themselves will reduce buying power still further, leave still more goods piled up unsold on the shelves, leading to still further layoffs, till the little recession is suddenly a big depression. The human disaster of a repeat performance of 1929 would threaten the foundations of democracy itself, wreck the free world alliance and throw victory in the cold war to the Kremlin by default—if indeed it did not precipitate a hot war, that third world war which it is the supreme objective of our national policy to prevent.

A depression, or even a little recession, can be avoided if positive, constructive action is taken to avoid it. Depressions are not acts of nature. Depressions are manmade, and can be avoided by the wise and vigorous action of men. We believe it to be the duty of the UAW–CIO to be aware of the danger of a depression, to make known the danger, and to give constructive leadership to our members and to the people of this country in support of the steps that must be taken to avoid the danger.

Unmet needs to be filled

Whereas business is slowing down today, not because the American people do not need the goods that industry and agriculture are able to produce, but because too many millions of American families do not have enough buying power to satisfy their needs. Even after years of relative prosperity, the unfilled needs of a large part of our people are staggering. We will have to build 2 to 2½ million new homes a year for years to come before all our people are adequately housed. Four-fifths of American families in the low- and middle-income brackets represent a potential market for nearly 11 million additional cars, nearly 11 million additional refrigerators and 12 million additional television sets, if their incomes were raised sufficiently. Millions of families in the lowest-income brackets need to have their food budgets increased as much as 70 percent to provide tasty and healthful diets. The unmet needs for clothing, for furniture, for household appliances and everything else that goes to make up our American standard of living are equally as great.

Vast community needs have still to be met. We must have hundreds of thousands of new school classrooms, thousands of new health centers and hospitals, before adequate opportunities for education and good health can be made available to all who need them. Our congested highways require many billions of dollars of additional expenditures. Almost every community needs convenient parking facilities. Programs for needed development and conservation of our natural resources including provisions for parks and recreation, offer opportunities for public investment which will return rich rewards in greater wealth and well-being and happiness for our people.

We have a responsibility to ourselves and to humanity to enlarge our program of nonmilitary aid to underdeveloped countries, that they may raise their own standards of living and develop strength and faith to resist Communist aggression, either by armed invasion or ideological subversion.

There are enough unmet needs within the United States and among the free peoples of the world to provide full production, full employment, and steadily rising standards of living for as far into the future as we can see.

These needs can be met, and prosperity assured, through a sufficient increase in consumer buying power and a long-range national program calculated to meet our needs for more homes, schools, hospitals, highways, and development of natural resources at home, and to provide the means whereby, through self-help, living standards can be raised throughout the underdeveloped areas of the world where Communist propaganda promises what democracy has not yet delivered to colonial and dependent peoples.

The vast, unsatisfied needs of people, here and abroad, constitute the last, beckoning, virtually unexplored economic frontier. Only by putting buying power into the hands of the masses of the people can we hope to absorb the full production of our industry and agriculture that every day grow more efficient.

Purchasing power in the hands of the people is the key to the future

Whereas sufficient buying power, in the hands of those who will spend it, is and always has been the key to American prosperity. Many avenues are open for action by labor, industry, and Government which will increase the buying power of the American people.

Needed Government action must include an adequate minimum wage law, improved unemployment compensation, increased social security, a more equitable tax program, protection of the unemployed against foreclosures and repossessions, and provision of equality in job opportunities through a national Fair Employment Practices Act.

Wise business leaders can, if they will, base their policies not on the narrow interest of maximum short-run profits, but on the broader interest of maximum buying power for workers and minimum prices to consumers consistent with reasonable profits for business, and by supporting rather than opposing Government action designed to put more buying power into the pockets of those who will spend it.

The trade-union movement will do its part through a vigorous program to raise the living standards of the organized, to organize the unorganized, promote economic stability through negotiation of the guaranteed annual wage, and to mobilize the broadest possible support for a national full-employment program with effective machinery for implementation of such a full employment program: Therefore be it

Resolved, That this conference representing the local unions of the UAW-CIO throughout the United States endorses the following program of action advanced by the international union to fill the unmet needs of the American people, to provide for full production and full employment, to insure that America's expanding productive capacity is geared to the needs of the American people and to strengthen our efforts to realize the peacetime hopes and aspirations of freemen everywhere and we call upon President Eisenhower to discharge his responsibilities and to give leadership in sponsoring a full employment program.

ACTION TO MEET PEOPLE'S NEEDS

1. Good homes and healthy neighborhoods for all American families

An essential part of a full-employment program must be the waging of a total war to wipe out the ugly slums in America's cities. Slums are the social cesspools that breed juvenile delinquency, crime, and social diseases and problems. To permit their continuance is costly and socially irresponsible.

Every American family, every American child has a right to live in a decent house, in a wholesome, healthy neighborhood. To provide every American family with a decent house, we must take steps to insure the construction of at least 2 million new houses in healthy neighborhoods with the related and essential community facilities each year for years to come. To achieve this goal, we propose that:

(*a*) The President give leadership in urging Congress to enact legislation to insure the building of a minimum of 2 million homes per year to sell or rent at prices and rents that wage earners and low income families can afford to pay. Since private builders have proven their inability to meet our serious housing deficit, the Government, while encouraging private builders to make their maximum contribution, shall assume the responsibility for building the number of houses necessary to meet the minimum goal of two million homes per year.

(*b*) The Government program should encourage individual home ownership and should provide legislation to protect home buyers against gouging by mortgage bankers by providing long-term mortgages at low interest rates and should further protect home buyers against unscrupulous practices of speculative builders.

(*c*) Mass production of low cost, high quality housing should be promoted as a means of reducing the cost of housing, increasing the volume of housing construction and enlarging the area of job opportunities.

2. Adequate educational opportunities for every American child

An important part of a full-employment program is the task of overcoming the tragic deficit in our school and educational system which is currently robbing millions of American children of their rightful educational opportunities.

Every American child, regardless of race, creed, color, or economic circumstance, is entitled to an educational opportunity that will enable him to grow intellectually, spiritually, and culturally—limited only by the individual capacity of each child.

The recent report of the United States Department of Health, Education, and Welfare stated that there is currently in 1953 a need for over 300,000 classrooms to take care of shortages and to replace tens of thousands of classrooms which are antiquated and, in many cases, firetraps. By 1960, 6 million more children will be going to school in America. To meet our school needs, we must construct a total of at least 600,000 new school rooms by 1960. In addition, a quarter of a million elementary and secondary school teachers will be needed by 1960 for the sole purpose of meeting the increased enrollment. Additional teachers will be needed if the classroom load is to be reduced to the level where teachers can give children the personal attention needed to assure maximum child development.

To overcome our educational deficit, we urge Congress to enact:

(*a*) A general Federal aid to education bill to supplement local expenditures for education and to improve school facilities including sufficient money to raise annual salaries of teachers above the present average of $3,400.

(*b*) The proposal that the royalties from the offshore oil development be put into a special fund to finance and improve education in the United States.

(*c*) A school construction bill to provide Federal aid for a comprehensive nationwide school construction program.

(*d*) A bill authorizing Federal grants to aid States in developing health services for children of elementary and secondary school age.

(*e*) An adequate budget for school-lunch programs to provide decent hot meals for children in all schools.

(*f*) A bill to provide funds which will make possible college education for qualified students who would otherwise be unable to attend.

(*g*) A bill to create a Labor Extension Service in the United States Department of Labor to provide for workers' services similar to those now available to farmers through the Department of Agriculture Extension Service.

(*h*) Clauses in all education legislation safeguarding Federal funds against expenditures under circumstances that serve to support or promote racial segregation or discrimination.

3. An adequate health program for all the American people

Despite the tremendous progress which medical science has made during the past years, millions of American citizens are still denied access to hospital facilities and medical services necessary to insure good health. Overcoming this serious deficit in our health facilities must be an essential part of a full employment program.

We need to build thousands of new hospitals and health centers, and arrangements must be made to remove the economic barriers to good health so that all Americans can enjoy the high quality medical care that medical science is now able to provide.

We propose the enactment of Federal and State legislation to implement the practical and constructive recommendations developed in the report of the President's Commission on the Health Needs of the Nation, which was appointed by President Truman and which published its findings and recommendations in January 1953.

4. A safe and adequate highway system

Modernizing our Nation's road system is both an economic and safety necessity and can constitute an important part of a full-employment program.

The highways of America have been neglected over a long period of time due to material shortages and there is a great need for new and modern highways to meet our growing highway problems. A recent conference in Washington, dealing with our highway problems, estimated that America needs over $30 billion worth of highway construction to deal adequately with our growing traffic problem.

Such a comprehensive highway construction program will create employment opportunities throughout the country and will stimulate a demand for all types of roadbuilding machinery and other heavy equipment, and a demand for steel, cement, and other basic materials, all of which will contribute greatly to full employment.

We propose that the Federal and State Governments take immediate steps to launch a comprehensive highway construction program to meet our growing traffic problem and to provide adequate and safe means of transportation and communication for the American people.

5. End America's parking headaches

As we improve our highway system and produce more and more cars and trucks, America's parking problems will multiply. Overcoming our parking headaches and providing the American people with modern and convenient parking facilities is an essential part of a full-employment program.

Every major city in America has a crying need for more and better parking facilities. Meeting these parking needs will create employment opportunities in almost every city in America and will create a demand for building machinery and building materials, etc. Meeting our highway and parking needs would not only solve two of America's most serious and aggravating problems but would also stimulate increased demands for cars and trucks.

6. Harness our rivers—control floods—develop our resources

Harnessing the power of our great rivers, controlling the floods and making water available for irrigation and developing our natural resources, is a major part of a full-employment program.

Developing the St. Lawrence seaway, the Missouri Valley and other river valleys along the lines of the TVA will not only create large-scale direct employment, but will add immeasurably to the wealth and productive power of the whole United States by opening up new areas of economic development and job opportunities.

We call upon Congress to enact enabling legislation that will insure the quickest job development of our river valleys on a basis that will yield maximum power potential and insure the maximum development and utilization of our water, soil, and mineral resources so that all of the American people can enjoy the benefits of the richer and more secure life that the development of these, the people's resources will make possible.

Specifically, we urge the immediate passage of the Lehman bill so as to defeat the plan of the New York Power Authority to serve as the tool of the private utility companies in seizing this large new supply of low-cost power for their own profit, and to enact the Wiley bill with the Humphrey amendment providing for United States participation with Canada in the construction of the St. Lawrence seaway from tidewater to the head of the Great Lakes; we urge that the Federal Government take immediate action to insure the construction of the high-level dam at the Hells Canyon site to furnish maximum power at the least possible cost to American consumers.

7. End discrimination on job front

Enactment of fair-practices legislation at the national, State, and local levels with enforcement machinery would eliminate the loss to our country of the talents and ability which go to waste when members of minority groups are denied equal opportunity of employment. Such legislation would help heal a running sore in our society which is one of the major propaganda weapons of the Communists in their appeal to the nonwhite peoples who constitute the overwhelming majority of the world's population. Negro and other minority groups bear a disproportionate share of the burden of unemployment because they are denied equal job opportunities. When jobs are available, they get the lowest paid jobs and they are hired last and laid off first.

8. Full equity for working farmers

The impressive and productive efforts of American farmers to assure America abundance of foods and fiber should not be rewarded by depressing the living standards of the people who work the land.

A full employment program must assure full equity to the farmer in exchanging the things he grows for the things he buys. The 1929 depression proved beyond doubt that the prosperity of farmers and the prosperity of industrial workers are inseparably tied together. Millions of American farmer families need the consumer goods that America's industrial workers and America's industrial plants are equipped to produce. Farmers need more tractors, trucks, combines and other agricultural equipment which the agricultural implement industry is capable of producing but which farmers can either not afford or are not buying now because of their fear and uncertainty about their economic future.

We propose the enactment of a Federal farm program by Congress that will provide full equity to working farmers, help meet their credit problems, improve markets, and will include other measures necessary to permit farm families to enjoy higher living standards, consistent with a program of full employment and full production.

9. Increase and extend unemployment compensation benefits

Increase unemployment compensation benefits and extend the duration of such benefits so that workers displaced by layoffs can have their purchasing power maintained. Specifically we urge early congressional action to provide adequate Federal standards for State unemployment insurance laws including:

(*a*) Maximum benefits of from 65 to 85 percent of the State or national wage average, whichever is higher.

(*b*) Substantial increase in the number of weeks for which benefits are paid with uniform duration for all unemployed workers.

(*c*) Elimination of unreasonable disqualifications, extended waiting periods and other penalties intended to protect employers' "merit rating" and thereby to reduce contribution rates.

(*d*) Repeal of the Knowland "scab-or-starve" amendment.

10. Raise minimum wages and extend coverage

Increase the minimum wage to $1.25 per hour and extend its protection to workers not presently covered, thereby expanding the purchasing power of millions of America's lowest income families.

11. Increase social security and extend coverage

Raise the social security retirement payments and extend coverage of social security benefits, thereby expanding the purchasing power base of millions of old people who depend upon social security as a means of sustaining themselves.

Specifically we urge immediate congressional action in support of the Lehman-Dingell bill (S. 260-H. R. 6034) to extend old age and survivors insurance coverage, and disability insurance, and increase monthly payments to a maximum of $200 a month.

12. A tax program based upon ability to pay

Passage of an equitable tax program based upon the principle of ability to pay. This would include increasing the personal exemption to $1,000, continuation of the excess profits tax and plugging the loopholes by which corporations and wealthy families escape their tax responsibilities. Such a tax program, based upon cutting the standard of luxury of wealthy families who have more than they need and reducing the tax burden of low income families who have too little, will do much to shift the tax burdens in the right direction and will place billions of high velocity purchasing power dollars in the hands of low income groups.

13. Debt moratorium for unemployed

Enact legislation to provide a national moratorium on debts and installment loans for people who have been laid off and who are unemployed through no fault of their own; and be it further,

Resolved: That this National UAW-CIO Full Employment Conference call upon the President of the United States and his administration to provide effective leadership and to take the further necessary steps to insure the American people full employment and full production in peacetime.

WE URGE ACTION NOW AS FOLLOWS:

1. Effective implementation of the employment act of 1946

The President should take immediate steps to insure the effective implementation of the Employment Act of 1946, which obligates the Federal Government to take necessary steps to protect America from the threat of recession or depression.

2. Put the "full" in the full employment act

We urge President Eisenhower to use his full influence with Congress to bring about the earliest possible congressional action to strengthen the Employment Act of 1946 along the lines proposed in The Economic Expansion Act of 1949, introduced by Senator Murray of Montana. Such a revision of the Employment Act of 1946 is needed to square the Employment Act with the economic facts of life in 1953 and should:

(*a*) Define Government policy as aimed at maintaining a steadily expanding economy; and direct the President to submit to Congress annual reports surveying the future industrial capacity, production, private investment and purchasing power required to maintain full employment in an expanding economy.

(*b*) Authorize an emergency reserve fund for urban and rural development to be drawn upon to stimulate production and employment whenever serious unemployment arises in any geographic area or any industry by initiating public works projects, agricultural conservation projects, accelerated procurement of commodities used by the Government, and loans to encourage private enterprise in such areas or industries.

(*c*) Direct the President to plan desirable Federal public works projects in advance and to finance the advance planning of public works by State and local authorities, for immediate use in case of recession.

(*d*) Authorize expanded Government financing of economic development in underdeveloped countries and the stockpiling of raw materials which are critical to the needs of the American economy and defense by purchases from underdeveloped countries.

Call broad conference to plan full employment

Be it further,

Resolved: That this UAW-CIO Full Employment Conference supports the proposal President Walter P. Reuther made to President Eisenhower in a letter dated April 6, 1953, and that we strongly urge President Eisenhower to call as early as possible a broad representative conference of industry, labor, agriculture, consumers and Government to draft a practical worksheet for full employment and full production.

If the administration continues in its failure to act on this proposal, we urge the CIO to continue its efforts and leadership in convening a full employment conference with the widest possible sponsorship by labor, industry, agriculture, consumer and civic groups.

INTERNATIONAL PROGRAM OF ECONOMIC AID AND TRADE

Be it further,

Resolved: That the UAW-CIO Full Employment Conference urge President Eisenhower, Secretary of State Dulles, and the Congress to provide the positive economic leadership which the free world needs and which America alone possesses the economic resources to provide.

1. Help America by helping underdeveloped countries

A full employment and full production program will make America stronger, raise our living standards to ever higher levels, and will also enable us to help underdeveloped countries to develop their own resources and thereby raise the living standards of millions of people who now live in abject poverty.

More than one-half of the people of the world have too little to eat. Yet America is confronted with farm and food surpluses which threaten the economic position of American farmers and have already caused widespread layoffs among workers in the agricultural implement industry.

The farm surpluses produced by American farmers, if used intelligently, can strengthen the free world in its fight against communism. This surplus food must be used as a part of a long-range program to help underdeveloped countries develop their own economic resources to fight poverty and hunger in those areas of the world where millions of people subsist on a starvation diet.

Many underdeveloped countries have tremendous national resources but they lack the capital equipment necessary to develop and exploit their resources. A long range program of exchanging capital equipment, such as agricultural implements, trucks, tractors, generators, power equipment, roadbuilding machinery, etc., for raw materials which these underdeveloped countries have will not only help other countries to raise their living standards but will greatly strengthen the American economy and assist us in further raising our living standards.

Without materials imported from such countries we would be unable to either to maintain our living standards or to defend our Nation.

We are dependent upon imports for:

Ninety percent of our manganese, vital to steel production—from India, south Africa, African Gold Coast, Brazil, and Cuba.

Practically all of our columbium, essential to jet engine production—from Nigeria and Belgian Congo.

Practically all of our chromium, needed for stainless and heat resisting steels—from Turkey, the Philippines, South Africa, Southern Rhodesia, Cuba, French Pacific Islands.

Ninety percent of our cobalt, used in special steels needed for electronic equipment, radar, jet engines—from Belgian Congo, French Morocco, Northern Rhodesia, and Canada.

Two-third of our tungsten, needed for cutting tools, armor piercing shells, jet aircraft parts, etc.—from Siam, Brazil, and Bolivia.

While encouraging free trade among the nations of the world, America must continue to oppose efforts of any corporation to swell its profits by shipping military strategic goods, materials, machinery, or equipment to the Soviet Union, its satellites, or any other nation involved in acts of aggression against tthe free world. Until the nations within the Communist world power bloc are prepared to agree, through the channels of the United Nations, to adequate international safeguards, including universal control and inspection of atomic weapons, to ship them goods, materials, and equipment which will increase their war potential is to flirt with disaster and to invite a repetition of the tragedy of Pearl Harbor, which was greatly encouraged by profit-hungry American industrialists who shipped scrap iron, petroleum, and other war materials to Japan and strengthened its buildup and its acts of aggression.

2. Strengthen United Nations

The U. N. should be strengthened, not undercut, split, and weakened. The most effective defense against Communist imperialism lies not in military strength alone, but in adding to it a positive dynamic utilization of our tremendous and continually expanding productive plan, wealth, and scientific and technological know-how.

Even if our military defense expenditures for our own forces and for military aid to our allies continue at peak levels of nearly $1 billion a week, we can afford and should spend more, instead of less, on economic aid. This aid should be not just in cash and goods but, more important, in capital investment to improve agricultural and industrial production of other peoples. Their standards of living, instead of falling, as is happening in too many countries, must be turned upward and kept on a rising plane.

Only growing mass purchasing power all over the world can absorb the steadily expanding production potential here and abroad.

America should give leadership through the United Nations to attacking the sources of Communist power by launching a practical, comprehensive, positive program of economic and social action to eliminate poverty, hunger, human insecurity, and injustice in the world.

3. United Nations fund for economic and social construction

We urge the United States leadership to establish a United Nations fund for economic and social construction into which America shall contribute 2 percent of our expanding gross national product. This is an insignificant amount compared to our defense budget. Other nations shall be called upon to make comparable contributions based on their economic resources and financial ability.

All nations of the world shall have access to the United Nations fund for economic and social construction, based upon their needs, providing, however, that such nations are not engaged in acts of aggression or associated in power combinations with nations engaged in acts of aggression against the free world, and provided further, that they have demonstrated a willingness to accept international control and universal inspection of atomic- and hydrogen-weapons development which are the essential first steps to the achievement of world disarmament.

Such a program of positive action would strengthen America's leadership in the free world, would stimulate a rebirth of hope in the hearts of people everywhere, and would contribute greatly to a program of full employment and progress for America.

Such a positive economic and social program, directed against man's ancient enemies: poverty, hunger, ignorance, and disease, is the best hope of free men in their efforts to create the foundation upon which a just and lasting peace can be built.

If peace is possible the armament reductions which would follow and the tremendous savings resulting from an end-to-the-world armament race would permit unprecedented improvements in the living standards of people throughout the world, and we in America could further share our blessings and our wealth with less fortunate people as proposed in President Eisenhower's historic speech on April 16, 1953.

4. International fair labor standards

In lowering tariffs to promote world trade, our own and other governments must protect workers and employers against unemployment and ruin. The Bell report recommends relocation of workers, retraining and placement, payment of relocation and moving expenses of the estimated small numbers who may be disemployed.

But more is needed. Any such program must include, and organize free labor throughout the world must insist upon, an International Free Labor Standards treaty that will bar from trade among the free nations goods produced at wages and conditions below a minimum standard of wages, hours, and working conditions, including the right to organize and bargain collectively through bona fide free trade unions of the worker's own choosing, it being provided that underdeveloped countries may have minimum quotas of trade, to be increased only as the minimum standards are met.

International solidarity of free labor

Be it further,

Resolved, That we support the efforts of the National CIO and the UAW-CIO tc build maximum international labor solidarity among the free trade unions of the world through the International Confederation of Free Trade Unions as a worldwide force in the struggle for bread, peace, and freedom.

We hail the historic development within the automotive division of the International Metal Workers Federation at a recent conference of delegates from automotive plants from the United States, Canada, and Europe. This conference took steps to create international councils in General Motors, Ford, and other corporations (having plants throughout the world) to coordinate and strengthen the mutual collective bargaining efforts of the free labor unions bargaining with such worldwide corporations.

Maximum strength at bargaining table

And be it further,

Resolved. That while mobilizing the full strength of our union and winning the broadest possible support of other labor, farm, consumer, and civic groups behind the program for full employment and full production in peacetime, we support the program and policies of the International Union, UAW-CIO, to build for maximum solidarity and strength at the collective bargaining table and to carry forward the preparatory efforts necessary to effectively implement the collective bargaining mandates democratically adopted by the last UAW-CIO convention as they relate to the guaranteed annual wage, higher wages, improved pensions, better hospital-medical care, achievement of greater equity for workers in the fruits of advanced technology and other basic collective bargaining objectives contributing to full employment and economic stability.

Meanwhile, this conference calls for vigorous continuance of our union's day-to-day struggle in the plans to block efforts of employers which would undermine our union and weaken its effectiveness in working for full employment. This requires eternal vigilance in the never-ending fight against every aspect of speedup, an alert membership dedicated to a struggle for safe and healthy working conditions, and a leadership prepared to resist any management effort to encroach upon union gains already won.

This Full Employment Conference pledge further its full support to the efforts of the International Union and the various UAW-CIO local unions in contributing to full employment by pressing forward in our common struggle to win higher wages and greater economic security in those shops and plants where contracts open up in advance of our major negotiations.

We support the calling of a National UAW-CIO Collective Bargaining Conference as proposed by the International Union to be held far in advance of our bargaining on major contracts.

This National Collective Bargaining Conference will be attended by a representative cross-section of UAW-CIO local union leadership and will facilitate the broadest possible discussion and action upon the basic demands and policies that will shape our collective bargaining efforts in our major contract negotiations.

State conferences—mobilize maximum support

And be it further

Resolved, That this conference pledge its full cooperation and support in mobilizing UAW-CIO local unions and UAW members behind this program; and that this conference go on record supporting the plans of the International Union to call State conferences in various strategic State capitals for the purpose of mobilizing the broadest possible support at the State and local levels behind our efforts to fight for full employment and full production in peacetime.

Education-public relations programs

And be it finally

Resolved, That this National UAW-CIO Full Employment Conference urge the International Union to give the widest possible distribution and publicity to this program for full employment and full production in peacetime so as to insure the broadest possible understanding and support among the members of our union and among the public generally.

Chairman WOLCOTT. Mr. Bolling?

Representative BOLLING. Mr. Chairman, I would like to ask Mr. Kestnbaum to look at the bottom of page 6 of his statement. I will read the sentence to which I have reference:

In the case of public works a standby reservoir of plans for needed projects of various types is necessary.

My question is very simple. Do you believe such a reservoir exists?

Mr. KESTNBAUM. No, sir; I do not believe there is an adequate reservoir at the present time.

Representative BOLLING. And you feel that this is a field in which action now should be taken?

Mr. KESTNBAUM. Yes, sir; I think it would be highly advisable to develop a wholse series of projects rather carefully developed, because the time may come when they will be needed, and when they are needed we don't have time to sit down and try to work them out.

Representative BOLLING. I would like to get in a "commercial" here, Mr. Chairman. I call your attention to a bill that Senator Douglas and I introduced on this particular subject. That is all, Mr. Kestnbaum.

Chairman WOLCOTT. This is the second time you have called attention to this same bill?

Representative BOLLING. That is right. It is a good bill.

We have a statement from the United States Chamber of Commerce, who found it impossible to be represented here. Without objection, I will offer their statement for the record.

(The statement referred to follows:)

Statement of Chamber of Commerce of the United States

The Chamber of Commerce of the United States believes that, generally speaking, business in 1954 will be good by any standards established before 1950, even though it probably will not be as buoyant as in 1953.

The present high level of economic activity bears careful and imaginative watching. Prosperity should be sustainable, although probably not without some such shifts and adjustments from time to time as we are now experiencing in price, tax, and profit relationships.

PROSPERITY

The great increases in expansion forces that have contributed to our superboom since Korea probably will not recur in 1954. However, strong sources of investment and consumer demand remain. Consumer income is still very high. Business intentions to invest in new plant and equipment indicate high level of capital investment this year.

UNEMPLOYMENT

The United States Census Bureau reports that in January 1954 unemployment totaled 3.8 percent of the civilian labor force, in no sense an alarming amount. Unemployment normally goes up seasonally in the winter months as weather curtails agricultural and other outdoor jobs.

Senator Douglas in his 1952 book, Economy in the National Government, estimated normal seasonal and transitional unemployment at "much nearer 6 percent than 3 percent of the employable work force," and argued that therefore "when unemployment is less than 6 percent, there is no real supply of workers ready to go into productive activity" (p. 253).

There has recently been some discussion of the failure of the labor force to grow over the past year. But even if the labor force had grown during 1953 at the average annual rate of the preceding 5 years (640,000), at current employment levels only 5.2 percent of the civilian labor force would have been unemployed in January 1954.

While there is no assurance that we can avoid cyclical fluctuations in business from time to time, it is difficult to see any reason why this country should ever again experience an old-fashioned depression.

PUBLIC AND PRIVATE POLICY

We now have a number of powerful antidepression tools on the statute book, such as insurance of bank deposits, unemployment insurance, amortized mortgages, and others.

Many additional legislative proposals are contained in the economic report. The national chamber plans to comment in some detail on a number of these later when testifying on specific bills. We want at this time, however, to say that we are particularly impressed with the eminently correct perspective within which the President's economic report spells out the roles which public and private policy should play in maintaining an expanding economy. It seems to us that the report states this proper relationship well:

"The Government can greatly help to maintain prosperity. But it is well to recall the accumulated experience of generations which has taught us that no government can of itself create real and lasting prosperity. A thriving economy depends fundamentally on the enterprise of millions of individuals, acting in their own interests and in the interests of their families and communities. The American people are highly skilled, imaginative, enterprising, and forward looking. The best service that the Government can render to our economy, besides helping to maintain stability and insuring a floor of protection for the population, is therefore to create an environment in which men are eager to make new jobs, to acquire new tools of production, to improve or scrap the old ones, design new products and develop new markets, increase efficiency all around, and thus be able and willing to pay higher wages and provide better working conditions" (p. 114).

Broadening protection of the individual through improvement of the Government's social-security programs and increasing business investment incentives through tax reform, are clearly called for at this time.

THE PRODUCTION RESERVE

Since Korea, official Government policy has been to (1) fight the war; (2) aid our allies; (3) greatly expand our industrial base and supplies of military hardware and other necessities, including stockpiles of raw materials.

Such a program has been generated and promoted by specific Government policies. In the interim, employment, production, and incomes have expanded. It is unreasonable to demand or expect that in time of peace we can immediately fully utilize all of the expanded capacity in every line for civilian needs. Indeed, we added this extra capacity for emergencies. In one sense since June 1950 we have been overworking and overproducing in certain lines in relation to normal civilian requirements, even after allowing for desirable normal growth. We should not be shocked or surprised if some of the war-connected industries, particularly, will for a while operate at something less than full capacity. This was part of the war mobilization expansion strategy.

Just 3 years ago, on February 23, 1951, Charles E. Wilson, who had resigned from the presidency of General Electric shortly before to become Director of the Office of Defense Mobilization, announced a program "to expand our capacity for producing military supplies" and "to maintain and expand our basic economic strength." He then went on to say that, for example, we were producing 90 million tons of steel for peacetime use before Korea; that by 1953 steel capacity would be expanded to 117 million tons and that if all-out war did not come, 90 million tons would again be available for the civilian economy. As of January 1, 1954, steel capacity had reached 124 million tons, the Korean war was over, and defense needs were declining. This is the basic explanation of why last week steel mills operated at 74 percent of capacity.

RAISING LIVING STANDARDS

We should, of course, soon be able to improve our living standards with this added capacity. The 1954 tax cuts provide for an automatic shift in this direction and should help stimulate the economy. They constitute a most favorable factor. Other tax reductions now scheduled for April can provide another fillip.

The increase in population and the continuing advances in technology are proceeding apace and give much cause for optimism about the future. It should be noted, however, that these are basically long-run influences and should not be relied on too heavily as plus factors for any particular year or other short period of time.

As its contribution to the easing of the post-Korean readjustment through which the economy is now passing, the national chamber for the past year has been advocating on a national scale a businessman's program for expanding jobs and production.

To maintain a prosperous, growing, dynamic economy that will provide efficient high-level employment for labor, capital, management and other resources is our objective.

In a free-enterprise economy, responsibility for assuring efficient use of our resources without inflation or recession rests upon both private efforts and government policies. Private business and industry should have policies and programs designed to lessen the problems of economic instability and to cope with them when and as they arise.

Obviously, such business policies cannot solve the whole problem, particularly if a weakening in employment and output of major proportions should arise. An important part of the problem must be handled by proper fiscal, debt management, monetary and credit measures. These public measures can provide the economic climate and stimulus necessary for private actions to be successful.

Private business alone cannot prevent a serious slackening in the rate of economic activity or a recession. However, it can do some things.

The primary aim of each businessman is so to conduct his business as to control and meet costs, and show a profit adequate to provide investment incentives. But within this broad objective he can do certain things toward maintaining the health and stability of his business and thereby contribute to a healthy economy. Undoubtedly, the businessman has a certain social responsibility, particularly to the community in which he operates.

Conscious appraisal of the business cycle in planning capital investment and inventory policies, coupled with renewed emphasis upon development of new products, diversification, and reexamination of price and sales promotion policies as conditions change, can all be very helpful to the individual firm as well as to the overall economy.

LEGISLATIVE RECOMMENDATIONS IN THE PRESIDENT'S REPORT

The national chamber believes that coverage of the Federal old age and survivors' insurance system should be extended to millions not now included.

We believe that the minimum benefit should be raised but not the maximum primary benefit. We do not favor increasing the present $3,600 maximum taxable wage base. Benefits should be increased by dropping out of the calculation a number of low-earnings years.

We oppose establishment of a "disability waiver" provision because of the elaborate physical examination procedure which the Federal Government would then have to administer. We favor liberalizing the present work test for OASI retirement benefit eligibility.

The national chamber believes that we should now extend coverage of the unemployment compensation system but, in so doing, care must be exercised to protect the position of the State governments in the Federal-State unemployment compensation system.

With many of the tax law changes proposed, the chamber is in agreement. We favor removing inequities in the personal income tax, increasing the period of "carryback" for losses to 2 years, estimating the double taxation of dividends, authorizing more realistic depreciation deductions and the expensing of research and development outlays.

We favor placing the burden of proof upon the government in section 102 cases. But this proposal does not go far enough. In addition, the law should specify that only such portion of corporate surplus as is determined to be unreasonable accumulation should be subject to the penalty tax. Furthermore, dividend distributions made within a reasonable period after the end of the tax year should be considered as having been made within the year.

Tax law encouragement of investment abroad is desirable. The proposals in the Economic Report should be welcomed as a first step toward this end.

The chamber opposes advancing further the due date of corporate income-tax payments.

With respect to housing legislation, we favor simplifying the operations of FHA and broadening them so as to give more recognition to the fix-up market. The major need here is to make mortgage credit more easily available for home improvements and alterations. This could be done by passing legislation which would enable FHA to "open end" its mortgages. This solution is not, however, mentioned in the Economic Report.

The chamber does not favor a continuation of the public housing program.

The chamber favors a secondary mortgage market facility provided it is so organized and operated that it will be a true secondary market and not a direct lending operation.

We are wholeheartedly in favor of making interest rates on FHA insured loans and on VA guaranteed loans flexible so that they can compete in the market with other demands for savings.

With respect to the public works suggestions, the chamber favors the extending and strengthening of the federally aided highway system.

We believe that State and local governments should themselves make provision for the long-time programing or budgeting of non-Federal public works.

The chamber favors putting into effect on January 1 next—as scheduled—the 1949 price-support legislation for the basic crops. The modernized parity formula for these commodities should take effect no later than January 1, 1956, the presently scheduled date.

THE CHAMBER PROGRAM

Working through local and State chambers of commerce, economic development agencies and others, the national chamber is helping individual local areas to reappraise their own economic potential in the light of changing circumstances. To aid in this work, the chamber has developed a comprehensive series of survey forms. These are the basic tools for the chamber's jobs, markets, and production program.

The Economic Report on page 107 commends such community programs of self-help. We believe their importance will continue to grow.

In summary, from the vantage point of mid-February 1954 the economy seems well on its way through the inevitable adjustment which was bound to follow the end of fighting in Korea. So far, that readjustment has been surprisingly easy. Alert, public-spirited policies on the part of Government, business firms, labor unions, farmers, and other groups can keep it so and quickly lay a firm base for further increases in the productivity and living standards of all Americans.

Chairman WOLCOTT. Mr. Meany, President of the American Federation of Labor, also found it impossible to be here this morning and has submitted a statement. Without objection, Mr. Meany's statement will be incorporated in the record.

(The statement of Mr. Meany follows:)

STATEMENT BY GEORGE MEANY, PRESIDENT, AMERICAN FEDERATION OF LABOR

The extent to which employment, production, and other key indicators of economic activity in the United States have receded from the peaks reached in the first half of 1953, is a matter of anxious concern to labor. Developments in recent months have made it clear that the country's ability to produce is becoming greater than its ability to purchase and consume. Unless the two are brought into balance, downward trends will continue to persist.

In the employment act of 1946, the Government accepted responsibility for taking measures which would not only arrest but also help reverse a downward movement in the economy. This responsibility must be exercised before a downswing may gain an irresistible momentum.

The Economic Report of the President recognizes that "The proper role of Government is * * * to foster conditions under which adjustment can be accomplished with a minimum of hardship and difficulty." It states, moreover, that "the most important of the conditions favorable to effective adjustment is a reasonable measure of stability in the overall level of employment and incomes." And it goes on to assert that "unless the Government is prepared and willing to use its vast powers to help maintain employment and purchasing power, even a minor readjustment may be converted into a spiraling contraction" (pp. 6–7).

Having thus established that purchasing power derived from consumer income is the key to the stability of the whole economy, the Economic Report proceeds to outline a program in fundamental contradiction to this principle. The primary concern of the program proposed in the report is with the encouragement of busness initiative and stimulation of production, while little regard is given to the need to bolster consumption. The theme running throughout the report is that what's good for business is good for the country.

The entire contraction in the economic activity of the country is explained as "due mainly to a decline in spending by business for additions to the inventory" (p. IV). This explanation files in the face of the facts marshaled in the report itself, making it plain that the excessive inventory accumulation was the result of insufficiency of consumer demand for them. It is indeed difficult to understand how these inventory surpluses can be the result of not enough additions to them by business.

Business inventories have increased by about $4 billion in 1953. Although the rate of sales during the year was high, the trend in the ratio of inventories to sales turned downward toward the end of the year. It is this disparity that is a matter of special concern. A precipitous inventory liquidation must be avoided and increased consumer spending to increase sales be assured instead.

Unemployment, reported by the Census to be at 2,359,000 in the first week in January of this year, has increased further and now exceeds 4 percent of the civilian labor force. Even the early January figure represented a precipitous rise in unemployment of 1,200,000 in 3 months. In the meantime, between June 1953 and early January, 2.6 million fewer persons were in the civilian labor force. Since unemployment during the same period increased by nearly 800,000, representing the loss of jobs within the labor force, there were 3,400,000 fewer jobs early in January, as compared with June. This means that 1 job in every 20 was eliminated, due to a decline in economic activity.

This decline would certainly justify, in our view, urgent and aggressive measure to prevent its turning into a spiralling contraction. Yet, the steps outlined in the economic report, although described as "bold" and "dynamic", lack both urgency and aggressiveness. The economic report itself asserts that "the current situation clearly does not require" a "program of emergency measures."

No urgency is indicated in the report for taking any measures that would bolster purchasing power or would help stabilize employment. While unemployment insurance is termed by the report as "a valuable first line of defense against economic recession," such steps as are indicated to strengthen it would rely on the initiative of the States and could only be accomplished over a period of several years.

The report makes much of the importance of public works as a source of increased employment. Yet no specific program of public works is proposed, nor is a way shown to make immediate use of plans already completed and readily available. What the report suggests for the present is not more than a study of public works planning.

Equally disturbing is the turnabout of the report away from the promised recommendation to raise the statutory minimum wage and extend the protection of minimum wage standards to workers not now covered. The report states that "although American living standards on the average are now higher than ever, there are certain groups whose consumption is much less than it should be." The remedies to correct this substandard consumption, according to the report, can wait. The report merely says that "We can in our lifetime go far toward eliminating substandard living" (p. 111).

The time to take the first and essential step toward this goal, the report contends, is not now. The report's devious reasoning is that economic activity now cannot "take in stride" adjustments in the minimum wage (p. 102). This is hard to reconcile with the record of minimum wage legislation in this country in the past. Surely, a substantial increase in the minimum rates of pay of low-paid workers can be effected with less strain in a $365 billion economy of today than it was in the $85 billion economy of 1938. What is more, the establishment of realistic minimum-wage standards now would effectively check destructive wage cutting on the downswing, help sustain purchasing power of workers lacking it most and do much toward reversing the downward trend.

Tax proposals contained in the report are not primarily concerned with lowering taxes on consumption, as distinguished from relieving the tax burden on higher incomes and profits. Such tax benefits to consumers as allowances for hired help to look after children at home, or for families whose children earn more than $600 a year while in college, will apply much more to the well-to-do than the low-income workers.

The burden of the economic report's tax proposals is to ease the burdens of taxation on business and investment income. Tax relief to divident recipients, extension of carryback privileges to corporations, liberalization of depreciation allowances, reduction of the tax on undistributed earnings, permission to deduct research and development expenses as business costs—all these proposals, plus the business-tax reductions already in effect or pending, provide a large and generous measure of relief to corporate and business income. These tax changes are not designed to and will not enhance consumer buying power needed to support productive activity.

Labor cannot agree with the philosophy of incentives favoring preponderantly business and property interests while ignoring the needs of the mass of consumers as well as their role in maintaining our economy prosperous. While the program projected in the report correctly described "consumer income as a key support to prosperity," it fails to adopt the remedies called for by its own diagnosis.

The American Federation of Labor, therefore, calls upon the Joint Committee on the Economic Report to recommend urgent consideration by this Congress of measures essential to bolster consumer buying power and check the present recession before it gains momentum.

An outline of specific actions we recommend, in addition to the proposals to strengthen our social-security system and other specific proposals, is contained in the accompanying statement of the American Federation of Labor executive council recently adopted. We submit it to the committee for favorable consideration and action.

STATEMENT BY THE EXECUTIVE COUNCIL OF THE AMERICAN FEDERATION OF LABOR ON ECONOMIC PROSPECTS, ADOPTED FEBRUARY 1, 1954

Factual and unbiased analysis of basic economic conditions indicates that while our national economy is organically healthy, we are headed for serious trouble unless there is prompt governmental action.

This is the executive council's conclusion after study of the report of the A. F. of L. research department on economic developments.

It is just as dangerous to belittle the current recession from the peak of economic activity as it is to exaggerate its meaning. Public understanding of the facts of economic life is vital in a democracy. Only such understanding can provide a firm foundation for confidence in the country's future and public support of policies essential to maintain our economy as a prosperous, going concern.

Our immediate concern is the rapid rise in unemployment during the last few months. This trend cannot be ignored by the Government nor lightly dismissed as a mere seasonal development. History shows that unemployment feeds on itself and can blight the entire national economy unless it is halted in time.

In the space of 3 months, between October 1953 and January 1954, unemployment increased by close to 1,200,000, more than doubling the number of jobless. Even as narrowly defined by the census, 2,359,000 workers were reported as unemployed at the beginning of this year. Both the level of unemployment and the rapidity of the rise call for remedial action.

Such action is all the more urgent because it will be vastly more effective while the margin of decline is still narrow. If the recession is allowed to run to greater depths not only will the remedies become more burdensome and difficult, but gravest repercussions throughout the free world will be inevitable. There is still time to inaugurate policies which can reverse the present trend without undue strain.

First of all, there is need to remove the uncertainty about the requirements of national defense and mutual security confronting the Nation in the near future. How great a reduction in the strength of the Armed Forces and when? How much reduction in defense production and defense-supporting activities and when? How large is the resulting gap in the national income likely to be and how much of an increase in the civilian buying power will it take to fill it?

The economc report of the President, transmitted to Congress on January 28, is strangely silent on these questions. It reads as though Korea and Indochina never happened and the Kremlin did not exist. Yet the pace of transition, the extent of cutbacks and prospective defense expenditures, loom large in determining the ways in which the resulting gap can best be filled.

The President's economic report correctly describes "consumer income as a key support of prosperity." But this very principle is too often unheeded in the programs the report recommends. And a number of "pathways toward a stronger economy" it suggests lead astray from the stated goal.

Compensation of employees represents two-thirds of the national income. To assure future stability, the first need is to sustain the flow of buying power which comes from wage income. Expanding buying power of workers is necessary to support expanding production and trade and to advance living standards.

A steady decline in farm prices and a 2½-year lag in farm income, despite a sharp population rise, has reduced the farm market potential for other goods and services.

To bring the Nation on the high road to sustained prosperity, not further study, but timely action is needed. The executive council strongly recommends the following types of action:

(1) Prompt increase in the minimum wage under the Fair Labor Standards Act to $1.25 per hour and extension of coverage of the law to the workers now exempt. It is disappointing that the President's recommendations for increase in the minimum wage have failed to materialize. The archaic economic views expressed on the subject in his economic report reveal that he has relied on the advice of persons having only a remote knowledge of the role of the minimum wage in a modern competitive economy. There is clear evidence that the increase we recommend is economically feasible and urgently necessary at this time.

(2) The unemployment insurance system must be generally strengthened and Federal standards established without delay. These standards should increase the amount and duration of benefits, with benefits geared to wage loss rather than a needs concept. Unjustified eligibility and disqualification restrictions should be removed from the administration of unemployment-insurance laws and coverage extended. State legislatures not meeting this year should convene in special sessions to act on needed changes.

(3) Adequate provision should be made to wipe out the great deficiencies in educational, health, and welfare facilities and services and to strengthen natural resource development and conservation. In the drive for economy, Government aids and services essential to the national welfare have been too often sacrificed or ignored.

(4) Funds should be made available to launch without delay a program of socially useful public works with Federal grants and loans available to States and municipalities in need of such assistance and Federal projects directly undertaken where appropriate.

(5) Aids for housing low- and middle-income families, slum clearance, and urban redevelopment should be far more advanced in size and character than proposed in the special message on housing.

(6) General tax reductions must not be put ahead of the Federal Government's responsibility to maintain stability and strength of our economy. When the budgetary situation permits, priority must be given to tax relief for those with taxable income of under $2,000. The so-called technical revisions recently proposed overwhelmingly favor the well-to-do and the business community with tax easements. We ask that preferential tax treatment accorded to these favored groups be rejected, and that instead the numerous and costly tax-escape devices be eliminated.

(7) Full effect should be given to the Employment Act of 1946, requiring the Federal Government to mobilize all its resources to promote conditions which afford "useful employment opportunities for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

The Council of Economic Advisers has not discharged its full responsibility required by this act.

Chairman WOLCOTT. Mr. Patton, of the Farm Union, had thought that he might be here, but he is sending his statement by airmail. It is expected to be here this morning, and, without objection, may be incorporated in the record.

(The statement of Mr. Patton follows:)

STATEMENT OF JAMES G. PATTON, PRESIDENT, NATIONAL FARMERS UNION

I am glad to have this opportunity to express my views on the Economic Report of the President, transmitted to the Congress on January 28, 1954.

My comments will be critical. This is partly because I believe that constructive criticism will be more helpful to the committee and to the Congress than facile applause. But it is mainly because I sincerely believe that, while well written and thoughtful and well meaning, the report falls far short of the careful analysis, the scope, and the vigorous projection of policies which the current and prospective economic situations imperatively demand.

The first and main portion of my comments will be devoted to the deficiencies in the report in terms of the welfare and progress, the stability and growth, of the whole American economy. I recognize fully that no important segment of the economy can prosper enduringly unless the economy as a whole does so. As all experience shows, this is doubly true of agriculture.

In the latter portion of my statement I shall analyze the deficiencies in the report from the viewpoint of agriculture, although I shall reserve a more comprehensive discussion of this matter until the time when farm policies and programs are more specifically considered by the Congress.

My interest in the stability and growth of the American economy as a whole has been of long duration. It was particularly manifested by my active participation in the development of the original full-employment bill. This bill was based upon the proposition that the people of the United States, through their instrumentalities of Government, should assume ultimate responsibility for maintaining full employment; and that if the level of economic activity stimulated by all types of private outlays with all available incentives were inadequate to maintain full employment, then the Government itself, on behalf of the people, should make up the difference through useful public outlays. I think that this is a sound economic philosophy, consistent with our traditions and our purposes, and that it will ultimately prevail. It is better to spend public funds to create wealth than to wase human lives through unmerited unemployment.

The Employment Act of 1946, as finally enacted, did not go this far, except by implication. But it did represent an enormous step forward. It went much further than merely to impose a responsibility to avoid recessions or depressions. It declared a continuing policy and responsibility of the Federal Government, in cooperation with industry, agriculture, labor, and State and local governments, to promote maximum employment, production, and purchasing power. It did not say that we were yet competent enough to achieve these objectives at all times, but it did say that we should strive to achieve them at all times. It gave no evidence of being contented with anything short of these objectives—whether pleasantly characterized as reasonably good or fairly satisfactory levels of employment or production or purchasing power. It emphasized maximum levels. And for all practical purposes, there is no distinction between maximum and full. Either term has to be defined, and either means optimum utilization of our manpower, our resources, and our opportunities to create a constantly higher standard of living and a constantly more abundant life for all the American people.

The Employment Act also set forth a very specific method in furtherance of these objectives. So far as the Economic Report of the President is concerned, the central and clearly defined function of this report is to set forth at the start of each year the "levels of employment, production and purchasing power * * * needed to carry out the policy declared in section 2," This necessarily means setting forth what levels for the 12 months following the issuance of the report would in fact be consistent with achieving the declared policy objective of "maximum employment, production, and purchasing power, Of coordinate importance is the requirement of the act that the Economic Report set forth a program for carrying out the policy.

This brings me to the first great deficiency running throughout the whole of the recent Economic Report—a controlling deficiency from which all of its other deficiencies necessarily flow. Nowhere within the report is any effort whatsoever made to define or specify what levels of employment, production and purchasing power in the year 1954 would represent needed (i. e., maximum) levels. The report does not tell us whether the employment need for 1954 is 62 million jobs or 64 million or 60 million. It does not tell us whether the production need for 1954 is 5 percent higher than 1953, or the same, or 5 percent lower. It does not tell us whether the need for 1954 with respect to unemployment is to reduce it to 1½ million, or to be acquiescent until unemployment might rise to 3 million or 4 million. And it does not tell us what amount or kind of purchasing power, and what kind of distribution of purchasing power among functioning groups in the economy or among individuals, would be consistent with the restoration and maintenance of maximum employment and production. This is not a statement of my opinion. It is a statement of fact as a reading of the report will clearly disclose.

Thus the Economic Report, for the first time in the 7 years of history under the Employment Act, ignores and evades the basic and specific responsibility imposed by the Congress when it enacted the law. Two very serious consequences follow inescapably from this neglect.

In the first place, because the report does not tell us what levels of employment or production or purchasing power are needed in 1954, it cannot effectively analyze to what degree we are now falling short, or in what parts of the economy the existing state of affairs departs most seriously from the desirable state of affairs. And without this, there can be no effective analysis of what kind of adjustments the economy needs, or needs most urgently, to correct the current maladjustments and to restore maximum levels of activity. In fact, the analytical parts of the report are mainly an historical account of what happened last year, and hardly at all a realistic discussion of what adjustments we need to accomplish this year—except for a vague tone throughout the report that we need to do better than we have been doing recently so that everything will turn out well.

And second, it follows as a matter of simple common sense that a report which does not attempt to define what kind of economic adjustments we need, or where we want to go, cannot recommend the appropriate or adequate economic policies to help us get there. Some of the policies recommended, as I shall subsequently indicate, seem based upon hunch or general theory or economic predilections, and thus are either unrelated to or even inconsistent with the disclosed analysis of the current situation or the undisclosed realities of what we need to do or where we want to go. In short, because the report has abandoned any practical and realistic effort to define needed or maximum employment, production, and purchasing power for 1954, it has equally abandoned a sufficiently practical and realistic effort to project the policies which will achieve and maintain maximum employment, production and purchasing power.

It might be argued that the needed objectives and policies for 1954 to achieve and maintain a full economy are implied in the Economic Report, even if not expressly set forth. But this is not the case. Careful examination of the report makes it obvious that the general economic outlook for 1954, as appraised in the report, is not consistent with a full economy, and that the recommended policies are attuned to the proposition that this outlook, if it can be realized in fact, is satisfactory at least for the time being. This I shall now demonstrate by referring specifically to various parts of the report.

On the employment and unemployment outlook for 1954, the report says practically nothing, except what may be gathered inferentially from its discussion of other aspects of the economy. This is very strange indeed, under an act which is called the Employment Act of 1946.

With respect to business activity in the field of outlays for plant and equipment, the report quotes and seems to accept an estimate that these outlays in 1954 will be about 5 percent less than the outlays in 1953 (p. 60).

With respect to housing construction, the report estimates that it "may be expected to continue at a level close to that of 1953" (p. 63). The discussion of this subject carries the clear implication that any variation is more likely to be on the down-side than on the up-side.

With respect to consumer outlays, the report states that "during the next 4 to 6 months, the disposable income of individuals, that is, personal income after taxes—may well approximate the rate of the last quarter of 1953" (p. 64). While the report seems to hope that consumer outlays may increase without incomes increasing, through a reduction in savings, the net impact of the discussion is to convey the expectancy that consumer outlay may with good fortune not fall below the level of the last months of 1953 (pp. 64–66).

With respect to Government expenditures for goods and services, the report estimates that Federal outlays in 1954 will be moderately lower than in 1953, and that this may be counterbalanced in part by increases in State and local expenditures (p. 67).

With respect to agriculture, the report contains the happy thought that agriculture "will continue to be confronted in 1954 with problems" (p. 69). It says that "if the domestic demand for foods and fibers continues at about its present high level"—of which the report seems not at all certain—"the prospects are that farm operators' realized net income will be close to its 1953 estimated level" (p. 70). I shall say more about agriculture in the latter part of my statement.

With respect to international economic transactions, the report anticipates no significant change in 1954 (p. 71).

In summary, even after taking account of the stimulating effects expected to result from the policies proposed, there is not a single basic area of the economy in which the report firmly anticipates or takes vigorous steps toward a substantial and immediate growth of outlay or a growth of economic activity above recent levels. In almost all cases, it seems comfortable in the thought that the declines may only be slight or that at best, the end-of-1954 levels may be maintained. And all this leads the report, under the bold caption "Basis for Confidence," to make the following statement which is characteristic of the whole document: "A review in this chapter of the major fields of expenditures and of the condition of agriculture suggests that outlays in most areas are likely to be well maintained in the visible future. This justifies some confidence in the view that the adjustments now in process will not initiate a cumulative downward movement of the economy" (p. 71).

So the Basis for Confidence in the report is that we may not have a serious depression and that by maintaining the levels of activity of recent months we may in 1954 do almost as well as in 1953 (since 1953 as a whole was better than the most recent months of 1953). I shall not undertake to discuss here whether even this degree of confidence is justified, in view of the serious maladjustments in the economy which the report glosses over. Instead, I want to concentrate attention upon the fact that the report shows no basis of confidence and advances no policies toward the end that maximum employment and production and purchasing power will be regained early in 1954 as a basis for a stable and growing economy in the years ahead. And I submit that anything short of this is an abandonment of the purposes of the Employment Act.

These deficiencies in the Economic Report are far more serious than they appear on the surface. For if every major part of the economy is just a little bit lower in 1954 than in 1953, or even just about the same, the loss to our economy when measured against our needs and potentials will be very great indeed. This is because we must measure our needs and objectives for 1954, not against our performance or potentials in 1953, but rather against our potentials in 1954. Every year, we have a larger population, and a rapidly progressing technology. Unless we keep up with this by registering actual gains in employment and production and purchasing power, we fall further and further behind. If ouput and purchasing power stand still, employment will drop as productivity continues to increase, and unemployment will rise. To be stable, we must grow. This is the whole meaning of the Employment Act.

Let me now illustrate this by some specific statistics. In the second quarter of 1953, before the start of the general economic recession, we had in the American economy a condition approximating maximum production, employment and purchasing power, even though serious conditions already existed in agriculture and among low-income families. And we had this condition without any general inflation; in fact, general inflation ended in early 1951, as the figures in the report clearly show although the report claims much credit for stopping inflation in 1953.

Under these conditions, in the second quarter of 1953, our total national product at an annual rate was about $370 billion; personal consumption outlays at an annual rate were about $230 billion; gross private domestic investment at an annual rate was about $59 billion; and Government purchases of goods and services—Federal, State, and local—at an annual rate were about $83.5 billion (p. 167). Employment at midyear 1953 was about 63 million, or let us say about 62 million when adjusted for seasonal variation, and unemployment as officially estimated was only about 1½ million (p. 184).

Now, measured against this, what do we need for maximum employment, production, and purchasing power in 1954, allowing for a growing population, a growing labor force if enough job opportunities exist, and a rapidly advancing technology and productivity? I am personally convinced that we need to chart a course that will each year raise the gross national products as measured in dollars by at least 10 percent and in physical volume between 5 and 10 percent per year. Taking the minimum figure and assuming no further inflation of industrial prices, we need in 1954—representing a maximum employment, production and purchasing power economy—a total annual product of not less than $385 billion, personal consumption outlays of not less than $240 to $243 billion, and gross private domestic investment of not less than $60 to $63 billion. This assumes that Government purchases of goods and services—Federal, State, and local—will be in the neighborhood of $82 billion, which follows from the declared intention of the administration to decrease Federal outlays in an amount which the Economic Report expects can be compensated for only in part by an increase in State and local outlays. All these figures are stated at the current general price level, to reflect real growth.

This means that for a full economy in 1954, the total national product must be not less than $15 billion higher than the annual rate in the second quarter of 1953, and not less than $20 billion higher than the annual rate in the fourth quarter of 1953. It means that personal consumption outlays must be about $10 to $13 billion higher than the annual rate in the second quarter of 1953, and that gross private domestic investment must be from $1 to $4 billion higher than the annual rate in the second quarter of 1953. If this is accomplished, we can and should have 63 million civilian jobs in 1954, contrasted with a seasonally adjusted full employment level of about 62 million in the middle of 1953. In December 1953, we had only about 60,700,000 civilian employed (p. 184).

Before discussing what we should do to accomplish these results in 1954, and in order to gain the full perspective which I believe we must have to think intelligently about our great economic problems, let us examine what we can achieve by 1960, if the stability and growth objectives of the Employment Act of 1946 are consistently adhered to. These estimates are based conservatively upon an average annual growth rate of only slightly in excess of 4 percent, compounded, between the middle of 1953 and the end of 1960. This contrasts with an annual growth rate of almost 7 percent, compounded, between the middle of 1950 and the middle of 1953 under the pressures of partial mobilization, and an average annual growth rate at about 4½ percent, compounded, between the middle of 1946—the first full year after World War II—and the middle of 1953.

With this steady growth rate—which is what maximum employment and production mean—our total national output should rise from the annual rate of $370 billion in the middle of 1953 to an annual rate of about $500 billion by the end of 1960. Over the same span of time, expressed in annual rates, personal consumption outlays should rise from $230 billion to about $330 billion, and gross private domestic investment from 59 billion to around 80 to 85 billion. In a $500 billion economy, this would leave room for Government purchases of goods and services—Federal, State, and local—at an annual rate of about $85 to $90 billion, contrasted with $83.5 billion at an annual rate in the second quarter of 1953. This amount of public outlays by 1960, which should be sufficient to meet our economic and human needs if defense spending can by then be safely reduced much further, would be only about 17 to 18 percent of our total national product in 1960, contrasted with Government purchases of goods and services at all levels coming to more than 22 percent of our total national product in the second quarter of 1953. In such a full economy, the Federal budget could be balanced with a 20-percent reduction in tax rates

With these gains in the overall between now and the end of 1960, we can achieve the following:

We can have 70 million civilian jobs.

We can bring up to a $4,000-a-year standard of living the 25 percent of all American families who in 1950 had incomes of less than $2,000, the additional 15 percent who had less than $3,000, and the additional 15 percent who had less than $4,000. This would absorb less than half of the total increase in personal consumption and personal incomes between now and the end of 1960, thus leaving plenty of room for higher-income families to make further gains.

We can achieve a gain of about 40 percent in the overall standard of living.

We can raise the average weekly earnings of production workers in manufacturing from a little more than $71 a week in 1953 to about $100 a week, which would raise average annual earnings from about $3,500 to about $5,000.

We can increase farm production by 20 to 25 percent above current levels, and in a $500 billion economy find plenty of markets for the absorption of this product. We can by 1960 have an annual farm income of 40 billion dollars or better, contrasted with about 33 billion in 1952.

A lifting of business opportunity by 1960 to a total annual investment rate of $80 to $85 billion should provide annual corporate profit opportunities before taxes of about $55 billion even at more reasonable rates of profits than in recent years, contrasted with the level of about $4 billion in 1953 (p. 213). With lower tax rates, the increase in profits after taxes would be still greater.

We can afford to provide, and by 1960 should provide, average retirement annuities under the social security system of at least $200 a month.

And we can by 1960, provide a truly American standard of education and health for every American family.

But we shall not reach these fair goals in the years ahead unless we move toward them year by year. We shall certainly not reach them if we remain complacent in the face of an economic decline which, comparing the annual rate in the second quarter of 1953 with the annual rate in the fourth quarter of 1953 has already brought a drop of $5.7 billion in our total national product (p. 167) and much more serious drops in important parts of the economy.

Let us therefore consider what policies we need to achieve maximum employment, production and purchasing power in 1954, and to lay the foundations for achieving it in the years after that. I shall only outline these needed policies in brief, and contrast them with those set forth in the Economic Report.

First of all, it is apparent from the figures which I have cited that we must get an enormous expansion in consumption to match our rapidly growing productive power. This is our economic problem No. 1. To get a $10 to $13 billion increase in the annual rate of personal consumption outlays in 1954, compared with the second quarter of 1953, many governmental policies are necessary. Changes in tax policy should do more than is now proposed to supplement the spendable income of low income families, and do less than is now proposed to help those who clip coupons (pp. 77–81). Social security benefits, especially retirement benefits, should be expanded well beyond current proposals; and in connection with unemployment insurance, the burden of increasing the protection should not be thrust so heavily as the Economic Report proposes upon the States which will not and perhaps cannot assume it (pp. 96–100). The minimum wage law should be increased now to at least $1.25 an hour, and perhaps higher. The proposal in the Economic Report that this action be deferred is entirely out of line with our economic needs and capacities (pp. 100–102).

Even more important in order to expand consumption, the Government should exert more pressure against the monopolistic practices which are getting the price structure further out of line with the buying power of the people. While the Economic Report takes much credit for "the stopping of price inflation" in 1953 (p. iv), the facts do not sustain this claim. Wholesale prices in the overall declined substantially in 1951 and 1952 as a whole, but not in 1953 as a whole (p. 37), while consumer prices rose about as much in 1953 as in 1952 (p .38). With respect to the wholesale prices of raw and finished goods, the prices of raw industrials continued in 1953 the very sharp decline starting in early 1951, but semiprocessed materials and goods rose slightly in 1953 after declining in

1951 and 1952, and finished goods rose in 1953 after being level in most of 1951 and 1952 (p. 36). While the wholesale prices of farm products continued in 1953 the very sharp decline starting late in 1951, the wholesale prices of other than farm products and food, which had declined in 1951 and in the first half of 1952, and remained fairly stable in the second half of 1952, rose considerably in the middle of 1953 and remained approximately level thereafter (p. 37). Consumer prices for 1953 as a whole tilted upward, after being about level for the second half of 1952 (p. 38).

In short, measured by the degree of rising prices or by increasing disparities in the price structure, the price situation has been worse during 1953 than in 1952. The Economic Report claims that inflation has been stopped in 1953. The facts seem to be that in 1953 the things that should have risen—such as jobs and production and farm prices—have gone down, while the things that should have fallen, such as administered or monopoly prices, have been rigid or have risen.

The complacency of the Economic Report about this whole price matter is most disturbing. We cannot expand consumption sufficiently to regain and maintain a maximum economy if this monopolistic distortion in the price structure continues.

And even if we get a really stable and fair price structure, the Economic Report commits a glaring omission when it fails to indicate the seriousness of the fact that the incomes of consumers have not kept pace with the requirements for an expanding economy. Real per capita disposable personal income—personal income after taxes—declined during the first half of 1953, even when the national product was rising and even when corporate profits before and after taxes were rising (pp. 167, 178, 213). This decline in real per capita disposable personal income continued at an accelerated rate during the second half of 1953 (p. 178). One of the very important reasons for this is that average weekly earnings in manufacturing at the end of 1953 were about the same as at the start (p. 42). Consumption cannot expand sufficiently if the incomes of wage earners do not keep in step with rising productivity, and productivity in industry is certainly rising rapidly.

I really cannot understand the failure of the Economic Report to attach significance to this highly unfavorable trend, or even to call attention to it in the analytical discussions. Of great importance also are the changes taking place in the distribution of personal incomes among different income groups; and to the best of my recollection this is one of the first Economic Reports which seems to omit discussion and analysis of the whole problem of personal income distribution. I am rather surprised that the distinguished economist who is Chairman of the Council of Economic Advisers seems now to attach so little weight to analysis of trends in income distribution, particularly in view of the very important work done in this field by the National Bureau of Economic Research. I hope that income distribution is not too controversial a subject for discussion in the Economic Report.

I agree with the Economic Report that business investment as well as consumption must grow in a growing economy. But the best way to enlarge business investment, under current conditions, is to expand the markets for the products of industry. The figures which I have cited above show clearly that our top priority problem now is to stimulate consumption. The analysis in the Economic Report itself, which attributes the downturn in 1953 to an inventory adjustment (p. 22), shows that the trouble came because consumers were not buying enough and not because business did not have enough funds. The big decline in farm income and farm buying has been a large factor in this development. The profit figures in the report show that corporate profits, whether before or after taxes, rose more between 1952 and 1953 than total disposable personal income (p. 14), and continued to rise in 1953 after such incomes leveled off (pp. 178, 213). Profits have fallen somewhat in recent months (p. 213), because sales have not been adequate. The report contains no evidence at all that profits are not high enough to sustain and increase investment (see p. 61), if the market prospects are there. Consequently, I do not favor the widespread and excessive proposals in the Economic Report for more favorable tax treatment of corporations and dividend recipients (pp. 79–80), because this will result only in excessive saving rather than in more investment unless consumer markets expand. In view of the extraordinary rates of recent profits, I cannot understand the solicitude of the Economic Report to augment business funds still further, while accepting with so much complacency the huge declines in farm incomes and the failure of other consumer incomes to keep up with the productive power of the country.

Furthermore, if the Economic Report wants to stimulate useful business investment, and not just add to swollen profits and excessive saving, it should examine more carefully where the best possibilities for expanding investment exist. The greatest need for a rapid expansion in private investment is in the field of housing. The report admits that the great growth in housing investment in the years after World War II were an important factor in the general economic expansion (p. 63). Yet, with defense expenditures declining, and with housing outlays being obviously one of the best ways to take up the slack and to help lift total investment to well over $60 billion in 1954 and to $80 to $85 billion by 1960, the report seems satisfied with the prospect that housing construction this year will be much lower than the average during the past few years (p. 63). The housing innovations proposed in the report (pp. 83–87) bear no relationship to the volume of housing required, or to bringing housing within the income range of those portions of the population who most need an improvement in their housing conditions and who constitute the greatest potential mass market for the expansion of housing if it is adjusted to their needs.

The report also is insufficiently responsive to the fact, so clearly demonstrated throughout our history, that fundamental public investment in resources and power and soil improvement, as well as in the improvement of our human resources through better educational and health services, are the basic foundations upon which the expansion of private investment opportunity must rest (see p. 105). For example, the report notes that electric power output increased 10.6 percent from 1952 to 1953, while industrial production increased 8.1 percent and the gross national product only 3.7 percent (p. 13). To maintain a maximum economy, power output must continue to increase about twice as fast as the growth of the economy as a whole; and this must include the carrying forward of many vast power developments which require Federal financing and which therefore should be owned by the people. And while the report talks about health and education, it urges no vigorous programs to expand necessary Federal aid to expand these services and to equalize opportunity in these areas (pp. 104–105). It seems to me that the Economic Report sets a high watermark of apathy toward the basic role which the Government must exercise toward the building of the Nation. This role which must expand in absolute amounts as the country grows even if the ratio of public outlays to the total size of the economy decreases—as it should and will decrease if the total economy expands enough.

I turn now to the portions of the Economic Report which deal with the condition of agriculture and with agricultural policy. As I indicated at the beginning of my statement, I shall defer an extensive treatment of this subject until the Congress considers the farm program. But a few brief excerpts from the Economic Report will sufficiently portray its lack of understanding of the farm problem and of the legitimate needs and aspirations of the American farm family.

I have already pointed out that the Economic Report expresses satisfaction with the prospect that export demand for our farm products may not weaken further in 1954, and that the realized net income of farm operators may be close to the 1953 estimated level if the domestic demand for foods and fibers continues a wha he repor characerizes as he presen high level (pp. 69–70). I am not satisfied that Amerizan agricultural and farm families stay where they are now, either as to production or incomes. They should advance along with the rest of the economy. But the Economic Report looks even further backward than 1953 in its approach to the farm problem. For example, on page 89, the report has this extraordinary statement:

"Trends in real farm incomes have been distinctly unfavorable since 1947, despite a generally prosperous national economy. During 1947–53, operators' real net farm income per farm fell almost one-third and their real net farm income per farm-family worker fell one-fifth. However, 1947 marked an all-time peak in realized net farm incomes, and agriculture has been in a relatively good financial position to make postwar readjustments. Its financial liquidity remains high, notwithstanding the decline in farm incomes. The real value of total agricultural assets and of farm proprietors' equities, per farm or per farm-family worker, is substantially above 1947 levels."

Now I submit, what kind of second-class citizen is the American farmer, that he should be told by his Government to look backward to 1947 in measuring the state of his affairs, when all other sectors of the economy have advanced enormously since 1947 in their incomes, their standards of living, and their retained assets?

There are many other instances where the report treats the farmer differently from everybody else. For example, on page 44, the report says that net farm income in 1953 was 7.4 percent below 1952; that retail sales of farm equipment and machinery in 1953 were 17 percent below 1952; and that gross investment in farm buildings, motor vehicles, and other machinery and equipment declined 11 percent in 1953 compared with 1952. These figures, it seems to me, show not only what is happening to the farmer, but also the relationship between his economic condition and that of industrial producers and distributors in the long run. But the economic report attempts to solace us with the thought, also contained on page 44, as follows: "But even in 1953 gross farm investment was larger than the normal wear and tear on the existing farm plant and equipment."

Why is the report satisfied with the finding that the farmer is just about keeping even with respect to plant and equipment, while it proposes unnecessary tax concessions to accelerate the development of new plant and equipment by industry, although industry during the past few years has been adding to its stock of new plant and equipment at the highest rates ever in peacetime? The answer to this question is plain, and it reveals the whole economic philosophy which underlies the attitude of the economic report toward the farm problem. The economic report wants the rest of the economy to grow, but it does not believe that American agriculture can or should grow.

The whole tenor of the economic report is that the overall level of farm production is adequate or too high (pp. 89–90), and that farm policy should be readjusted to prevent a further growth in farm output or to encourage an actual reduction, in order to get rid of the problem of farm "surpluses" (pp. 92–94). This is a completely wrong appraisal of the farm problem, and furthermore the policies proposed in the report would be wrong even if the appraisal were correct.

Maybe we have enough farm output, when measured against the current size and condition and behavior of the economy; and, of course, farm "surpluses" will get bigger and bigger if the economy is allowed to move further down hill. But we do not have enough farm output to meet the needs and desires of American families or of American industries if our economy continues to grow as it should. If in the few years ahead we remove poverty from the United States as we have the productive power to do, if we provide a truly American standard of diet for all American families, and if we grow year by year to a $500 billion economy by 1960, we shall by then as I have already indicated, need at least a 20 to 25 percent increase in farm output. The report completely overlooks the desirability of putting American food and fiber to work for the interest of free-world economic development and otherwise to bolster the foreign policy of the Nation. Our magnificent farm productive capacity provides a real source of strength in halting and rolling back Russian totalitarian imperialism. In my opinion, at least $1 billion a year of farm commodities should be used for this purpose over and above our usual farm exports. Thus the stated objective of the report, to "encourage needed and effective adjustments of production to current demand and carryover" (p. 94), is an abysmally shortsighted and wrongheaded approach to the whole problem of agriculture in a healthy and expanding American economy. It is hard, indeed, to see how those who helped to write the economic report can reconcile this approach with the facts which they cite, showing how seriously the demand for city products has already been affected by the current condition of agriculture (p. 44).

But even if the report were correct—which it is not—in this effort to restrain and restrict the total of farm output, its recommended policies are ill-suited to this purpose. The substitution of "flexible" 75 to 90 percent supports (pp. 92–93) for what the report calls "high and rigid price supports" (p. 89) would not lead to sound adjustments in production, but only to further downward adjustments in farm income. There is very little in the history of American agriculture to justify the idea that lower farm prices and lower farm incomes bring corresponding restraints in farm production.

Nor is there any worthy support in experience for the idea that lower farm prices would maintain or enlarge farm incomes by increasing the consumption of farm products. How could this happen, when the statistics in the economic report show that a reduction in farm prices and incomes of tremendous magnitude since late 1951 has been accompanied by very little increase in total farm production and relatively very little change in consumer food prices (pp. 37, 38, 193)? So long as we have an administered or semimonopolistic price structure outside of agriculture, a depressed level of farm incomes and prices will not result in much reduction of consumer prices, unless and until the depression of agriculture helps to produce a general depression throughout the economy. In that event, everybody would be worse off, and nobody would be better off.

The truth of the matter is that the economic report unreflectively embraces the sales propaganda, circulated now for many years, to the effect that the farmers of America have been receiving too large a share of the national income. Even when farm prices and incomes were at their peak, the average American farm family never achieved anything even approaching true parity of income with other segments of the population. Farm standards of living have risen over the years, but the rise has not nearly caught up with other standards of living. And what was a misguided approach to the farm price and income problem even when farm prices and incomes were at their peak, becomes a ridiculous approach in view of what has happened to farm prices and incomes in the most recent years, and in view of the clear demonstration that the evils which have befallen the American farmer are gradually but surely inflicting increasing hardships and dangers upon the rest of the economy.

I note with interest the reference which the economic report makes to the problem of rural poverty. However, it says that the solution of the income problems of the rural poor "lies largely in the expansion of local nonfarm employment or in movement to better opportunities elsewhere. If some of these families are to achieve satisfactory levels of living from farming, their small farms must ultimately be replaced by more efficient, larger, family farms. This will require both a continuing shift of underemployed farm families into more productive work and a substantial influx of capital into agriculture (p. 92)."

The report does not tell us by what means or programs these poor farm families are to find work elsewhere, when employment opportunities are shrinking elsewhere, and when the report itself neither forecasts an expansion of activity in any other sector of the economy in the short run nor proposes vigorous policies to bring about this expansion. Nor does the report bridge the inconsistency between its statement that there must be a substantial influx of capital into agriculture, with its comforting assurances (to which I have already referred) to the effect that gross farm investment in 1953 was larger than the normal wear and tear on existing farm plant and equipment (p. 44), and that the assets of farmers for purposes of improving their equipment and for other purposes are substantially above the 1947 levels (p. 89). Considering the dismal decline which has already taken place in farm income, and the admissions in the report that at best we should seek to achieve a continuance of the levels of late 1953, where is the capital coming from to get better equipment for low income farm families?

I should like to commend the report for its recognition that one method of aid to the reduction of rural poverty would be "rural education, health, and housing" (p. 95). But I do not find in the report any effective proposal to enlarge these services, and the budgetary proposals would tend to contract many of them.

In all seriousness, there is really no farm policy or program in the Economic Report. There is only a weird tangle of inconsistencies. It is hard to say whether the President's economic advisers want farm production to go upward or downward, whether they want farm incomes to go upward or downward, whether they want low-income farm families to become more efficient or to get out of agriculture entirely, or whether they want farmers to get more education so that they will become better farmers or so that they will become schoolteachers. And, even insofar as by a long stretch of the imagination we can delineate what the report wants to have happen in agriculture, the policies which it proposes would in some cases, if adopted, achieve the opposite results. I shall have more to say about all of this in due course.

Those of us who worked for the adoption of the Employment Act of 1946 had a practical vision of a constantly growing America—an America whose resources and industries and farms and brains and techniques and skills and manpower would be given a full release of opportunity, to be translated into a constantly rising standard of living and a more abundant life for all American families. During the first years under the Employment Act, despite the drain of much of our resources to accomplish necessary enlargements in our national defense and to help the free world, we saw the beginning of the translation of this practical vision into reality. Even the current Economic Report does not fail to cite with pride the achievements of the American economy since World War II (pp. 11–12).

But since the middle of 1953, and in the case of agriculture since long before then, we have witnessed a reversal of this progress. And we have now come to the point where a prompt and vigorous application of the Employment Act is more needed than at any time since its birth. This is the worst of all times for an Economic Report to begin to sund the bugle of retreat from the true purposes of the Employment Act. This is the worst of all times for the President's economic advisers, even under the cloak of anonymity, to become fearful of the consequences of America's increasing productive power and to attempt to persuade the American people that we should be satisfied with a little recession at least for a while longer, which is already a very big recession for American agriculture.

I sincerely hope that the Congress will study this report with careful deliberation and will so modify its policy recommendations that they may be brought more into line with the great needs and even greater potentialities of the American people.

Chairman WOLCOTT. We have statements by the United Electrical Radio, and Machine Workers of America, the United Textile Workers of America, the National Grange, and the National Association of Manufacturers which, without objection, may be inserted in the record in the absence of their being here personally to testify.

(The statements referred to follow:)

UNITED ELECTRICAL, RADIO, AND MACHINE WORKERS OF AMERICA (UE)—SUBSTANTIAL UNDERSTATEMENT OF ACTUAL UNEMPLOYMENT BY CENSUS BUREAU FIGURES—A CORRECTION

SUMMARY

At least 4,071,000 persons who are able, willing, and desiring to work were unemployed in January 1954. Thus the Census Bureau figure of 2,359,000, reported as the January 1954 volume of unemployment, actually underestimates the extent of joblessness by 1,712,000.

This gross misrepresentation of the actual volume of unemployment arises from certain misclassifications and faulty definitions and from certain inadequate and misleading sampling questions employed by the United States Census Bureau. Thus many persons actually not working are improperly classified as employed, and others actually able, willing, and desiring to work are defined as nonworkers and thereby excluded from the unemployed count.

The United Electrical, Radio, and Machine Workers of America (UE) since 1949 has pointed out these deficiencies in Federal unemployment data which arise from Federal Government procedures and definitions adopted in 1945 and maintained without correction to the present time.

Every Federal Government discretionary decision regarding methods and definitions has been exercised in favor of minimizing total unemployment. This is not only contrary to the idea of maximum employment in a dynamic economy but also damages and renders misleading Federal unemployment data as a guide to public policy in the crucial initial period of rising unemployment. The UE sounded an alarm at this deficiency in 1949 and sounds this alarm again in 1954.

The UE has developed methods of adjustment of census data to correct the reported unemployment figures, which make the following adjustments for January 1954:

Census reported civilian labor force	62, 137, 000	
UE labor force correction, add:		
1. Women excluded	+655, 000	
2. Male youths (14–24 years) excluded	+419, 000	
Corrected civilian labor force		63, 211, 000
Census reported total employment	59, 778, 000	
UE employment correction, subtract:		
1. Workers temporarily laid off or waiting for a new job	−347,000	
2. Allowances for involuntary part-time work (14 hours or less)	−291, 000	
Correct employment		59, 140, 000
Unemployment, January 1954		4, 071, 000

THE UE METHOD FOR ESTIMATING UNEMPLOYMENT

The UE correction formula involves two general corrections of census estimates: (1) A correction for the census underestimation of the size of the labor force—the exclusion of people not meeting the rigid, and strongly biased toward understatement, requirements surrounding the definition of "actively seeking work"; and (2) a correction for the census overestimation of the level of employment—inclusion, as employed, of workers temporarily laid off or waiting for a new job and part-time workers involuntarily employed for as little as 1 hour a week.

The present UE estimate of unemployment is derived by use of this formula, worked out in 1949, now supplemented by certain other data relating to the exclusion of women and young men from the labor force.

UE labor force correction

The Census Bureau unemployment estimate, actually based on a person's active search for work, is tailor made to deflate artificially the proportion of our population counted in the labor force during periods of economic slack. In such periods, when job opportunities are diminishing, when marginal workers are aware of their low seniority, when knowledge of worsening pay and work conditions is generally shared, when there are many applicants for each available job, the concept of being actively unemployed results in defining out of existence large numbers of workers whose status of not working arises only because of the lack of available jobs. The main decision of the Federal Government in its unemployment estimate methods was based on distrust of workers' avowed desire to work and reliance on demonstrated action in seeking work. This bias, without question guiding census sample interrogators, lies at the root of the Government's elimination of marginal workers from the labor force, with the resultant gross understatement of unemployment in times of economic downturn.

After 7 years of civilian labor force growth averaging 748,000 annually, the Federal Government now claims there is a completely contratrend decrease during 1953 of 711,000.

The attempted explanation in the Economic Report of the President (pp. 149–150) for this elimination of workers from the labor force as being an expected readjustment to abnormal Korean war labor force growth is groundless. There was no such abnormal growth. The allegation that "the sudden and well-publicized yielding of China on the prisoner repatriation issue on March 28, 1953," explains the departure of 800,000 workers from the labor force is fantastic on its face. Moreover, close analysis of the statistics of the labor force for this period reveals this rationalization to be baseless improvization.

The real reason for the 711,000 civilian labor force decline in 1953 was the disappearance of job opportunities and the improper exclusion of workers from the officially reported labor force.

In addition it must not be forgotten that there was an average growth of the civilian labor force from 1947 to 1952 of 748,000. Thus a rough measure of the real total of workers excluded from the labor force as of the end of 1953 was 1,450,000. The UE formula is designed to give a more accurate estimate of the number actually excluded.

Women excluded from the labor force by census

There were approximately 655,000 women incorrectly excluded from the labor force in January 1954. This figure is derived by assuming that in January 1954, if job opportunities had been available, women would have participated in the labor force at the same rate—32.8 percent—they did a year earlier.

In the framework of a 60-year uptrend of the labor force participation rate of women, an uptrend especially steep in the post World War II years 1947–51. Census reports a sudden reversal of the trend during 1951–53. In 1953 alone, 632,000 women withdrew from the labor force, according to the Census Bureau.

The Census argument, spelled out by the President's Economic Report (pp. 149–150), that this reversal resulted from the voluntary withdrawal of women brought into the labor force by the Korean war is incorrect. On the contray, the reversal reflects the Census' failure to include in the labor force women wanting, but unable to find, jobs, especially in the recession latter half of 1953.

The alleged Korean war influx of women into the labor force actually took place before the war, in the post-World War II boom of expanding job opportunities. From December 1946 to June 1950, 2,797,000 women entered the labor force, while from June 1950 to December 1951 only 137,000 more entered. Thus, if there was no abnormal Korean war influx, the 1952–53 decline of the women's participation rate could not have been due to an expected readjustment to that "abnormal influx."

Indeed, the reported withdrawal of 632,000 women in 1953, as well as their declining participation rate since 1952, can only be due to a weakening and, in the second half of 1953, a disappearance of the job opportunities which, before the Korean war, permitted women to work for the needed additional family income in a period of high taxes and rapidly rising cost of living.

Male youths (14–24 years) excluded from the labor force

In January 1954, at least 419,000 young men (14 to 24 years) were improperly excluded from the labor force. This figure is derived by assuming that in January 1954, if job opportunities had been available, young men would have participated in the labor force at least at the same rate—59.4 percent—as they did a year earlier.

The Census Bureau reports a sharp reversal, beginning after the outbreak of the Korean war in 1950, of the post-World War II increase during 1947–50 of the labor force participation of these young men. The Census Bureau's argument, echoed by the President's economic report, is that with the cream of the male youth drained into military service, the remaining pool of civilian youths contains a greater proportion of unemployables. This argument is untenable, because during World War II, when the military drain on male youths was far more powerful than during the Korean war, the labor force participation rate of the remaining civilian youths nevertheless increased, in contrast with the Korean war decline.

In addition, the Korean war decline was accounted for, to a large extent, by the 14-to-17-year group, a group not in the main subject to military service.

Finally, a major part of the decline occurred in the latter half of 1953, precisely as a recession began to develop seriously.

The general conclusion is inescapable that the labor-force participation of these young men declined in close correlation with deteriorating economic conditions and disappearing job opportunities. Census reports on their participation have thus improperly excluded thousands who would be working if jobs were available.

Census overestimation of the volume of employment

The Census Bureau improperly includes in the volume of employment, workers in two categories which, simply on the basis of definition, clearly reveal the Government bias against adequate reporting of the actual volume of unemployment.

In January 1954, there were 347,000 workers temporarily laid off or awaiting a new job, who did not work in the survey week and yet were counted as employed.

In the same month, there were 291,000 workers involuntarily employed less than 15 hours a week, who would have taken full-time jobs had they been available. The Census Bureau improperly counts all part-time workers as employed, even if only 1 hour a week.

These two groups must be subtracted from employment and counted as unemployed.

At least 4,071,000 persons who are able, willing, and desiring to work were unemployed in January 1954. Thus, the Census Bureau figure of 2,359,000 reported as the January 1954 volume of unemployment actually underestimates the extent of joblessness by 1,712,000.

This gross misrepresentation of the actual volume of unemployment arises from certain misclassifications and faulty definitions, and from certain inadequate and misleading sampling questions employed by the United States Census Bureau. Thus, many persons actually not working are improperly classified as employed, and others actually able, willing, and desiring to work are defined as nonworkers and thereby excluded from the unemployed count.

The United Electrical, Radio, and Machine Workers of America (UE) since 1949 has pointed out these deficiencies in Federal unemployment data, which arise from Federal Government procedures and definitions adopted in 1945 and maintained without correction to the present time.

The UE has developed methods of adjustment of census data to correct roughly the reported unemployment figures. These methods, described in more detail in this memorandum [1] make the following adjustments for January 1954:

Women improperly excluded from the labor force	655,000
Young males (14 to 24 years) improperly excluded from the labor force	419,000
Workers temporarily laid off or awaiting new jobs	347,000
Involuntary part-time workers (a portion of those working 14 hours or less)	291,000
Subtotal	1,712,000
Census-reported unemployment	2,359,000
Total unemployment, January 1954	4,071,000

Every Federal Government discretionary decision regarding methods and definitions has been exercised in favor of minimizing total unemployment. This is not only contrary to the idea of maximum employment in a dynamic economy, but also damages and renders misleading Federal unemployment data as a guide to public policy in the crucial initial period of rising unemployment. The UE sounded an alarm at this deficiency in 1949 and sounds this alarm again in 1954.

THE UE METHOD FOR ESTIMATING UNEMPLOYMENT

The UE formula correcting Federal unemployment estimates was first worked out in 1949, a period somewhat similar to the present, when rapidly rising unemployment raised widespread doubts about Census estimates.

The concept of unemployment upon which the UE formula is based is the "number of persons (or their man-hour equivalent) able, willing, and available for work, who are not at work due to lack of demand for their labor or due to the frictions of internal adjustments in the economic apparatus." [2] On the basis of this concept, the UE formula involves two general corrections of Census estimates: (1) A correction for the Census' underestimation of the size of the labor force—the exclusion of people not meeting the rigid, and strongly biased toward understatement, requirements surrounding the definition of "actively seeking work"; and (2) a correction for the Census' overestimation of the level of employment—inclusion, as employed, of workers temporarily laid off or waiting for a new job, and part-time workers involuntarily employed for as little as 1 hour a week.[3]

The present UE estimate of unemployment is derived by use of this formula, worked out in 1949, now supplemented by certain other data relating to the exclusion of women and young men from the labor force. For January 1954, the following results are obtained:

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[1] Also see: Nixon-Waybur study, National Unemployment Estimates, March 1949; and Russ Nixon, Correction of Census Bureau Estimates of Unemployment, in the Review of Economics and Statistics, February 1950, p. 50.

The estimates and procedures in this memorandum are of a preliminary nature, pending further research into the current detailed data.

[2] Russ Nixon, Correction of Census Bureau Estimates of Unemployment, the Review of Economics and Statistics, February 1950, p. 50.

[3] In the present UE formula, the second of these two corrections (that is, the correction for Census' overestimation of the level of employment) is exactly the same as in the 1949 UE formula. The first correction (for Census' underestimation of the size of the labor force) in the present formula, however, is based on a direct estimate of the number of women and young men excluded from the labor force. This differs from the 1949 UE formula which made an overall estimate of the portion of the Census "not in the labor force" category which should properly have been included in the labor force.

TABLE I

Census reported civilian labor force	62,137,000
UE labor force correction: add,	
(1) Women excluded	+655,000
(2) Male youths (14 to 24 years) excluded	+419,000
Corrected civilian labor force	63,211,000
Census reported total employment	59,778,000
UE employment correction: subtract,	
(1) Workers temporarily laid off or waiting for a new job	−347,000
(2) Allowances for involuntary part-time work	−291,000
Corrected employment	59,140,000
Unemployment, January 1954	4,071,000

The derivation of each of the items in table I will be discussed in detail below.

UE labor force correction

The Census Bureau unemployment estimate, based on a person's "active" search for work, is tailormade to deflate artificially the proportion of our population counted in the labor force during periods of economic slack.

In an expanding economy, characterized by full employment, when, in general, jobs are seeking workers rather than the opposite, it is undoubtedly comparatively easy to weed out those workers who are not actually in the market for these seeking jobs. Even here, however, the Census Bureau's narrow requirements surrounding the definition of "actively seeking" work, can and do permit placing beyond the dividing line, and hence out of the labor force, many thousands of fringe workers actually able, willing, and desiring to work.

But, in a contracting economy characterized by less than full employment and by rapidly rising unemployment, when, in general, job opportunities are rapidly disappearing and there are many workers seeking each job, the Census Bureau's dividing line works so as to exclude from the labor force many hundreds of thousands of workers who are fringe elements in the labor force, and who, therefore, are apt to be the least successful, those left farthest behind, in the general competition for scarce jobs. The job-seeking activity of these fringe elements—the women and the very young and very old men—under such circumstances becomes extremely fuzzy, in terms of the Census' narrow and rigid requirements. Thus, with the excuse that the subjective attitude of workers cannot be considered, the Census Bureau can exclude from the labor force thousands who are actually able, willing, and desiring to work but who, having been unable to get jobs in the stiffly competitive market, then carry on a type of job-seeking activity insufficient to the Census Bureau.

Of greatest importance in this respect is the problem of normal labor-force growth due to natural population increase and other long-trend factors, the most significant of which is the longrun upward trend of the labor force participation rate of women. Thus, along with the exclusion, or withdrawal from the labor force of persons formerly employed, the factor of labor force growth gives rise to a doubly serious inadequacy of the Census concept when unemployment is growing rapidly. In such periods, the normal flow of new entrants into the labor force is completely defined away, and labor-force growth is lost in the statistical shuffle.

Reference to table II on labor force data dramatically illustrates this entire question with respect to the 1953 period.[4]

[4] Although the overall UE estimate of unemployment in this paper is for January 1954, some of the basic-trend tables, such as table II, refer to December data for 1953 and earlier years. This was unavoidable because the detailed census data for January 1954 were published too late to permit the use in this paper of January rather than December data. The basic arguments, illustrated by December data, hold true generally (p. 4).

TABLE II.—*Labor force*

[In thousands]

	Total [1]	Military [2]	Civilian [2]	Change from previous year	
				Total, including military	Civilian
December:					
1946	60.720	1,890	58,830		
1947	61,270	1,280	59,990	+550	+1,160
1948	63,228	1,453	61,775	+1,958	+1,785
1949	63,875	1,430	62,445	+647	+670
1950	65,074	2,136	62,938	+1,199	+493
1951	66,488	3,400	63,088	+1,414	+150
1952	66,912	3,587	63,325	+420	+233
1953	66,014	3,400	62,614	−898	−711

[1] Total and civilian labor force figures for 1947–52 are adjusted upward by 400,000 due to statistical revisions introduced in 1953. See Survey of Current Business, January 1954, p. S–10 footnote.
[2] Sources for military personnel data: 1946–50, Business Statistics, supplement to Survey of Current Buisiness, Dept. of Commerce 1949, 1951. 1951, Handbook of Basic Economic Statistics, Economic Statistics Bureau of Washington, 1953 edition. 1952, Economic Indicators, January 1954. 1953, President's budget message.

Table II shows that after 7 years of civilian labor force growth averaging 748,000 annually, there is a completely contratrend decrease during 1953 of 711,000. How is this asserted withdrawal from the labor force in 1 year to be explained? The Economic Report of the President (January 1954, p. 149) explains the withdrawal as the departure of workers "who came into the labor force during [Korean] wartime military and economic mobilization." This, however, is not true. The big growth of the labor force since World War II occurred, not during the Korean war mobilization, but in 1947 and 1948 (see table II), when jobs were plentiful. The growth rate actually fell off in the Korean war period.

The President's Report, in explaining the 1953 decline in the labor force, continues with the ridiculous assertion that "in the month of April 1953, following the sudden and well publicized yielding of China on the prisoner-repatriation issue on March 28, the civilian labor force, instead of rising as usual by 500,000 in that spring month, fell by 300,000—a net decline in the seasonally adjusted labor force of 800,000." This argument is completely unbelieveable on its face, for it is absurd to claim that the day-to-day job activities of any sector of American workers—their activities in pursuit of a livelihood—bear such a close relationship to events on the international scene. Moreover, the claim is statistically indefensible.

TABLE III.—*March-to-April changes in civilian labor force*

1947	+730,000	1951	−536,000
1948	+755,000	1952	+226,000
1949	+ 21,000	1953	−324,000
1950	+508,000		

The contraseasonal decline of 536,000 in 1951, and the small rise of 21,000 in 1949 point strongly to the conclusion that it was a sheer coincidence, of which the Economic Report made so much, that the contraseasonal decline of 324,000 in 1953 occurred at the same time as the "yielding of China on the prisoner-repatriation issue." In addition, there is little in table III which indicates a seasonal decline of 500,000 between March and April, over the years 1947 through 1953. The large increases in 1947 and 1948 took place in a period of rapidly expanding job opportunities. The remaining 5 years show wide variation.

The Economic Report elaborates its argument further by dealing with the withdrawal of women and young men from the labor force. We shall deal with these elaborations in detail below in the sections of this paper devoted to the questions of women and young men.

The real reason for the 711,000 civilian labor-force decline in 1953 was the disappearance of job opportunities and the improper exclusion of workers from the officially reported labor force.

In addition, it must not be forgotten that, as table II indicates, there was an average growth of the civilian labor force from 1947–52 of 748,000. Thus, a rough measure of the real total of workers excluded from the labor force as of the end of 1953 was 1,450,000. (The UE formula gives a more accurate estimate of the number actually excluded.) With the civilian labor force reduced in 1 year—1953—by 711,000 workers formerly employed, it is easy to forget, statistically, that there are, in addition, several hundreds of thousands of new workers who have entered the labor market but are easily obscured by the dearth of job opportunities.

Under circumstances such as those described above, the fringe elements of the labor force are easily counted out of the labor force when actually they would be working if job opportunities were available. It is important to emphasize that this applies not only to the new additions to the labor force but also to those previously employed but now relegated, by the dearth of alternative openings, to the expendable fringe.

We know generally that women and unskilled male youths are the last to be hired and the first to be fired. It is relatively easy to count out individuals who, having for some time made the rounds of employment offices and having exhausted the application possibilities in their localities, knowing their low seniority status, and hearing of the serious lowering of job standards of pay and conditions, as well as of openings, then should appear to stay in or go back to "kinder, kuche, and kirche," to school, or to retirement.

The result of this situation is the loss of a considerable amount of unemployment in official reports. It must be reemphasized that the loss is most serious in periods of rapid economic change when, in the flux of a sharply shrinking labor market, the fringe elements are swiftly made to vanish from the rolls of the labor force actively seeking work.

A detailed examination of census labor-force data bears out this contention. Thus, the present supplementation of the UE formula for estimating unemployment is based on this data and is designed to account for the inherent census inadequacies in a period of rapidly rising unemployment. In addition to the census' failure to measure adequately what might be called the normal unemployment of fringe labor-force elements in more stable economic conditions, the supplemented formula is designed to measure as well the growth factor obscured by census in a period of rising unemployment.

Women excluded from the labor force by census

The UE estimates that in January 1954, there were approximately 655,000 women incorrectly excluded from the labor force. This figure is derived in the following manner: The conservative assumption is made that in January 1954, if the job opportunities of a healthy, expanding economy had been available, women would have participated in the labor force at least at the same rate as they did a year earlier, in January 1953.

TABLE IV.—*Derivation of UE estimate of women excluded from the labor force by census*

Total civilian, noninstitutional female population (over 14 years), January 1954	58, 876, 000
January 1953 labor force participation rate ______ percent	32. 8
Multiplied, equals number actually in labor force, January 1954	19, 311, 000
Less, number reported by census in labor forces, January 1954	18, 656, 000
Equals, numbered excluded	655, 000

For better than 60 years, the labor force participation rate of women, that is, the percent actually in the labor force, of all women of working age (14 years and over), has been increasing:

TABLE V.—*Labor force participation rate of women* [5]

	Percent		Percent
June 1890	18.3	April 1930	23.6
June 1900	20.0	April 1940	25.7
January 1920	22.7	April 1950	28.9

[5] Women as Workers, Department of Labor, Women's Bureau, table 20. The rate refers to percent of total female population over 14 years of age.

The reasons given by the Women's Bureau for this increase are the complete transfer of productive activities from the home to the factory, requiring "increased money income in the family in order to obtain the goods and services which were formerly provided by unpaid labor in the home * * * the trend toward urbanization and the concomitant increase in apartment-house living, a declining birth rate (at least until recent years), and increasing education for women, which has fitted them for a variety of new jobs." To these should be added an increasing breakdown of the notion that woman's natural place is in the home.

This rising trend was especially sharp in the post-World War II period up to 1951. (See charts I, I–A, and table VI.)

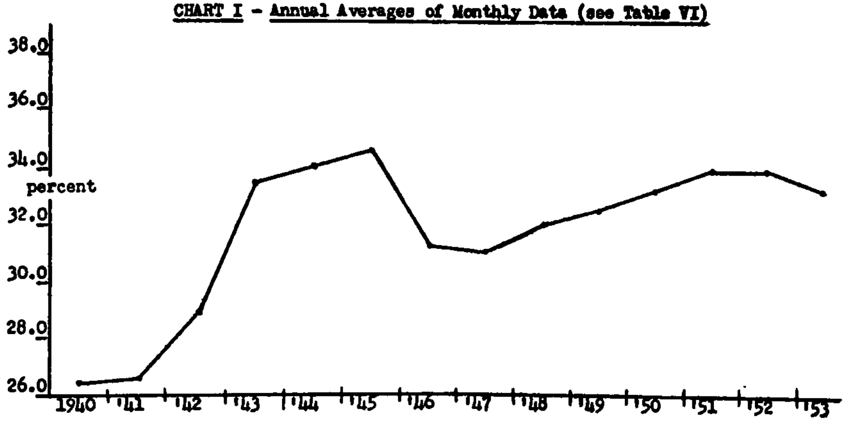
TABLE VI.—*Labor force participation rate of women* [6]

Year	December each year	Annual averages of monthly data	Year	December each year	Annual averages of monthly data
1947	30.5	31.0	1951	34.1	33.8
1948	32.1	31.9	1952	33.9	33.8
1949	32.6	32.4	1953	32.4	33.1
1950	33.5	33.1			

[6] The rate refers to percent, in the labor force, of total noninstitutional female population of working age (over 14 years).

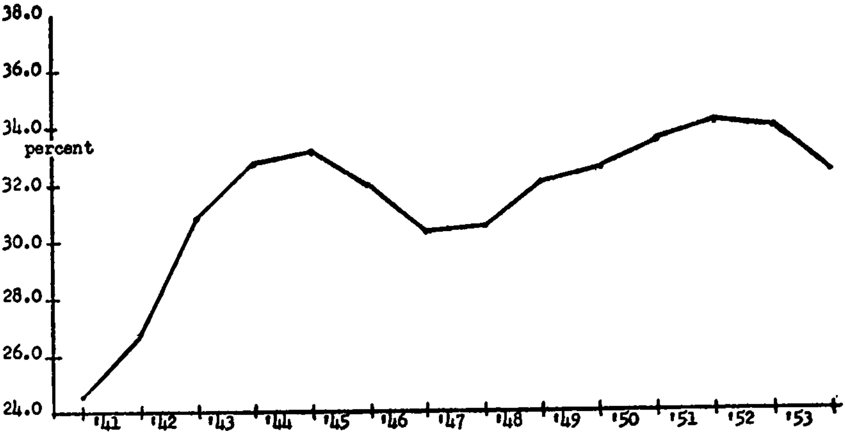
LABOR FORCE PARTICIPATION RATE OF WOMEN (14 YEARS AND OVER)

CHART I - Annual Averages of Monthly Data (see Table VI)



LABOR FORCE PARTICIPATION RATE OF WOMEN (14 YEARS AND OVER)

CHART I-A - December of Each Year (see Table VI)



The explanation of the sharp and steady postwar upward trend to 1951 of the labor force participation rate of women, lies in a combination of three factors: First, the postwar period was characterized by a rapidly rising cost of living and continued maintenance of high wartime taxes which, in many families, made the single, male breadwinner's income inadequate for needs, and thus exerted pressure on many hundreds of thousands of women to seek additional family income. This is borne out by Department of Labor, Women's Bureau studies. For example, the Women's Bureau publication, Women as Workers, states, "The percent of wives in the labor force in 1951 and 1952 decreases markedly in accordance with the husband's incomes * * * about one-third of the wives were working in families in which the husbands' incomes were between $1,000 and $3,000 * * *" (p. 84). This study points out that, "Following the postwar low year of 1947, the rising cost of living and the ever-pressing family need for additional money income forced many women back into the labor force" (p. 3).

Second, in the prosperous postwar boom, rapidly expanding job opportunities provided the possibility of satisfying pressing family income needs by means of the wife working. Third, women were able to take advantage of this possibility because during World War II, two ancient barriers were broken down. Many hundreds of thousands of women were able to acquire industrial skills previously the property, in the main, of males. And the desperate wartime need for manpower seriously breached the ancient notion that woman's place is in the home.

In the framework of the 60-year uptrend, and of these immediate factors resulting in increasing female participation in the labor force, the sharp reversal of trend after 1951 in the participation rate of women is contrary to all expectations. From December 1951, to December 1953, the rate declined from 34.1 percent to 32.4 percent. Can this reversal be justified, in view of the fact that only one of the factors giving rise to the upward trend, was inoperative by December 1953? With the onset of recession in the latter half of 1953, the previously widespread job opportunities had disappeared. In their stead, layoffs and unemployment increased rapidly. But the cost of living and taxes remained at the same high levels and thus families continued to have the same needs for additional income. And, women still had their wartime-acquired skills and newly won acceptance of liberation from the kitchen.

It is incredible to assert that, under these circumstances, women left the labor force voluntarily in the great numbers reported by the Census Bureau, thus causing their labor force participation to decline.

The President's Economic Report (pp. 149–150) does make this assertion. But it does not stand up. In explaining the exodus of workers from the labor force in 1953, the report says there was an unusual influx of workers into the labor force during the Korean War, who withdrew after it. "The 'departing' workers * * * came into the labor force during wartime military and economic mobilization. As the Armed Forces expanded rapidly after the third quarter of 1950, following the Korean outbreak,this civilian labor force was replenished by young people and women. *Many more females entered by the end of 1951 than could be attributed either to population growth or to the long-run tendency for more women to take up gainful work.*" [Emphasis added.]

It has already been shown above that, for the total labor force, the major influx of workers took place before the Korean war, in the expansion years 1947 and 1948. In addition, the underlined statement, with respect to the timing of the entry of females, is simply wrong. Reference to table VII below shows that an average of 530,000 women entered the labor force each year during the years 1947–51, that is, up to "the end of 1951." The major, unusual increase in this period took place in 1948 when, in a year of rapidly expanding job opportunities, 1,104,000, or more than twice the average number of women entered the labor force. The 1950 influx of women was only somewhat above average, and the 1951 influx, average.

The number of women in the labor force in the second half of 1950 actually declined by about 400,000, a somewhat smaller decline than the average of 560,000 for the second half in the years 1947 through 1953.

By far the greatest part of the women who had entered by the end of 1951, had entered the labor force before the Korean war, as table VII shows. Therefore their entry can and should "be attributed either [or both] to population growth or to the long-run tendency for more women to take up gainful work." From December 1946 to June 1950, 2,797,000 women entered the labor force, while after the Korean outbreak, from June 1950, to December 1951, only 137,000 more entered. To avoid comparing different months, consider also that from December 1946, to December 1950, 2,563,000 women entered the labor force, while from December 1950, to December 1951, only 571,000 did so.

The other half of the argument of the President's Report, that is, that the workers who (allegedly) came into the labor force because of the Korean war, left, in the main, in the first half of 1953—specifically, in the case of women, in April and May—and that "very little net change in the labor force beyond normal seasonal movement occurred between May and December 1953 * * *" (p. 150) is also untenable.

The fact is that the important labor force trends do not show on the surface in census-reported data for the latter half of 1953. Although it is true that there was little apparent net change in the labor force between May and December 1953, nevertheless significant changes occurred in that period. Note that the total civilian labor force in December 1953 was 707,000 less than a year earlier, while in June of 1953, it was roughly the same as a year earlier (June 1953 only 56,000 less than June 1952). This difference measures the serious extent of the decline in civilian labor force in the latter half of 1953. The net decline is considerably greater even than this, when account is taken of the total difference between the reported decline of 707,000 and the normally expected increase of some 700,000.

The significance of these data are hidden not only by the census reports of the labor force, but also by the failure of census unemployment estimates to reflect what was actually happening in the labor market in the latter half of 1953. The significance of the above data is intimated in the report's weak statement that "* * * the fact that the usual inflow of 300,000 workers from increase in working-age population was not realized during these 7 months reflected a gradual dwindling in the rate of labor force participation" (p. 159). The important question—which is raised in this paper, and incorrectly answered by the President's Economic Report—is why the dwindling took place. The developing recession of the latter half of 1953 and the consequently dwindling of job opportunities provide the answer.

A detailed analysis of the Census Bureau's data on the employment status of women further bears out the general argument of this paper on this point.

TABLE VII.—*Employment status of female noninstitutional population of working age*

[In thousands]

December	Absolute level				Quantity change from previous year			
	Total population	In labor force	Not in labor force [1]		Total population	In labor force	Not in labor force [1]	
			Keeping house	In school			Keeping house	In school
1946	54, 150	16, 440	31, 700	3, 790	+610	−740	+2, 040	−30
1947	54, 789	16, 698	33, 013	3, 617	+639	+258	+1, 313	−173
1948	55, 398	17, 802	32, 793	3, 556	+609	+1, 104	−220	−61
1949	56, 027	18, 280	32, 862	3, 601	+629	+478	+69	+45
1950	56, 702	19, 003	32, 834	3, 639	+675	+723	−28	+38
1951	57, 356	19, 574	32, 794	3, 678	+654	+571	−40	+39
1952	58, 166	19, 682	33, 344	3, 740	+810	+108	+550	+60
1953	58, 810	19, 050	34, 487	3, 962	+644	−632	+1, 143	+222

[1] Not included are two categories "Unable to work" and "Other."

Source Monthly and annual reports on the labor force.

The first point to be noted is the relatively constant annual increase in the total female population of working age, averaging something close to 650,000. In the period of December 1952, to December 1953, this increase was 644,000. At the same time, the Census Bureau reports a decrease of 632,000 in the number of women in the labor force. This exit of women from the labor force, during 1953 alone, represents over one-quarter (26 percent) of the entire withdrawal during 1945 and 1946, after the tremendous influx during the peak World War II production years (December 1940, to December 1944) (see table VIII).

TABLE VIII.—*Women of working age (14 years and over) in the labor force, World War II*

[In millions]

	Number	Change from previous year
December—		
1940	13. 4	
1941	14. 8	+1. 4
1942	17. 3	+2. 5
1943	18. 2	+. 9
1944	18. 8	+. 6
1945	17. 2	−1. 6
1946	16. 4	−. 8
1947	16. 7	+. 3

Source Labor Force Bulletins, series P-50, No. 2.

During the years 1941–44, 5,400,000 women entered the labor force. In 1945 and 1946, 2,400,000 withdrew. In contrast, the Census Bureau reports that better than one-quarter that amount—632,000—withdrew from the labor force in 1953 alone when, as table VII indicates, there was no unusually large entrance of women into the labor force during the Korean war years of 1950 and 1951 comparable to the World War II influx.

On the contrary, the major influx of unusual proportions took place during 1948—1,104,000—a year of rapidly expanding job opportunities.

The conclusion can only be that the sudden decrease during 1953 of 632,000 in the number of women in the labor force reflected not a legitimate voluntary withdrawal but rather Census' failure to count as unemployed in the 1953 period of developing recession and rapidly rising unemployment a large number of women available for work but excluded from the labor force because they did not meet the rigid requirements of "actively seeking work."

Reference to the census breakdown of the activities of women not in the labor force fortifies this conclusion. Table VII indicates that the number of women keeping house suddenly shot up after December 1951, increasing in 1952 by 550,000 and 1953 by 1,143,000. This contrasts with the fact that there was no drainage of women out of the kitchen into the labor force during the early Korean war period on a scale comparable to that of World War II. On the contrary, the only sizable drainage in previous years took place in the pre-Korea prosperous year 1948, a year of expanding job opportunities. The Census would have us believe that this great return to the kitchen was a voluntary aftermath of the Korean war. In actual fact these women in the main went back to keeping house because they could get no paying jobs.

A similar sharp and unusual increase in the number of young females in school took place between December 1952 and December 1953. In that year 220,000 went into school, contrasting with a 40,000 to 60,000 range in the previous 4 years and with sizable decreases in 1948 (61,000) and 1947 (173,000). The same questions arise as to Census treatment of these women.

All of these facts relating to the "anatomy" of the female population of working age lead to the conclusion that the Census Bureau has in the past incorrectly excluded from the labor force a large number of women who, if job opportunities were available, would be working. These women must be counted as unemployed.

The UE's conservative estimate of the number of these women is 655,000 in January 1954. However, the less conservative assumption can be made with some justification that the upward trend during 1947–51 of the labor force participation rate of women continues to January 1954. In this case the actual participation rate in January 1954 would be greater than the Census reported rate by an amount equal roughly to the average difference in 1953 between the extrapolated and the reported monthly data. This difference is approximated by the difference between the extrapolated annual average, 35.1 percent, and the reported annual average of 33.1 percent. Thus the actual January 1954 rate of participation would be 33.7 percent, compared to the Census reported rate of 31.7 percent. By using the same formula used in table IV, we would get a figure of 1,194,000 women improperly excluded from the labor force, as compared to the more conservative figure of 655,000 used in the UE estimate of overall unemployment in January 1954.

Male youths (14–24 years) excluded from the labor force

In addition to women, young men between the ages of 14 and 24 years constitute a second major segment of the fringe of the labor force whose numbers actually in the labor force are underestimated by the Census Bureau.

In January 1954 the UE estimates that at least 419,000 of these young men were improperly excluded from the labor force. These 419,000 must, therefore, be added to the total of the unemployed. (See table I.)

This correction is based on the same type of assumption as that used in the case of women: It is assumed that in January 1954, if the job opportunities of a healthy, expanding economy had been available, young men aged 14 to 24 years would have participated in the labor force at least at the same rate as they did a year earlier, in January 1953.

TABLE IX.—*Derivation of UE estimates of male youths excluded from the labor force by Census*

Total civilian, noninstitutional male population aged 14–24 years, January 1954	9,630,000
January 1953 labor force participation rate (percent)	59.4
Multiplied, equals number actually in labor force, January 1954	5,720,000
Less number reported by Census in labor force January 1954	5,301,000
Equals number excluded January 1954	419,000

Justification for this estimate and the method by which it is derived is to be found in a detailed examination of the trends in certain aspects of the unemployment status of these male youths since 1940.

TABLE X.—*Civilian labor force, participation rate of males, 14–24 years* [1]

[In thousands]

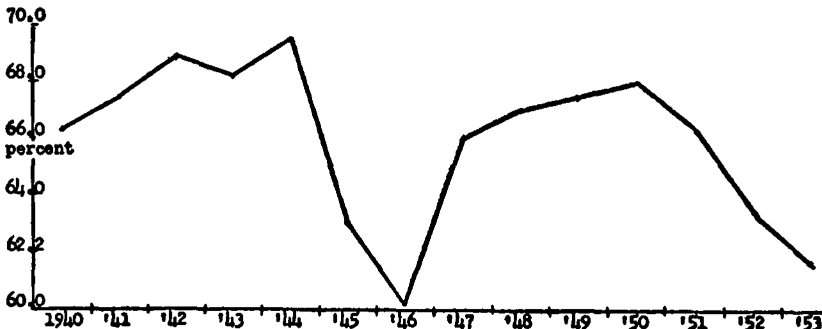
Annual averages	Total civilian noninstitutional population	In the labor force: Number	In the labor force: Percent of population
1940	12,790	8,480	66.3
1941	12,380	8,360	67.5
1942	11,080	7,640	68.9
1943	8,420	5,740	68.2
1944	7,290	5,070	69.6
1945	7,290	4,600	63.1
1946	10,620	6,400	60.2
1947	11,669	7,703	66.1
1948	11,683	7,847	67.1
1949	11,458	7.735	67.5
1950	11,408	7,759	68.0
1951	10,385	6,892	66.4
1952	9,812	6,234	63.5
1953	9,599	5,938	61.8

[1] Source: 1940–46—Census Labor Force Bulletin, P-50, No. 2, tables 4 and 9; 1947–52: Annual Report on the Labor Force, P-50, Nos. 13, 19, 31, 40, 45, tables 3 and 8; 1953: MRLF table 6 (annual average of monthly data).

Reference to table X and chart II shows that the civilian labor force participation rate of these young men, rapidly recovering from the 1946 postwar low of 60.2 percent, reached a rate of 66.1 percent in 1947, approximately equal to the 1940 prewar rate of 66.3 percent. From 1947, the rate rose steadily to a peak of 68 percent in 1950. Then, after the outbreak of the Korean war, the rate fell sharply to 61.8 percent in 1953, considerably below even the prewar rate of 1940.

CHART II

CIVILIAN LABOR FORCE PARTICIPATION RATE, MALES 14–24 YEARS
(annual averages of the monthly data)
(see Table X)



The point to be noted here is the sharp reversal in 1950, after the outbreak of the Korean war, and the sharpness and depth of the decline. Why did this reversal take place? This question is especially significant in view of the fact that the decline took place during the Korean war, in contrast to a rise in the rate during the World War II period of 1940–44. One reason advanced for this post-1950 decline is that, with the cream of the male youths drained into military service, the remaining pool of civilian youths contains a greater proportion of unemployables. This argument does not stand up. The drain of male youths into the Armed Forces during World War II, when over 12 million were in uniform, was far more powerful than during the Korean war, when maximum military strength reached only 3.6 million. If this argument were valid, one would have expected the 1940–44 trend to have been more sharply down than the Korean war trend, rather than up.

In addition, the Korean war decline in the labor force participation rate of males aged 14–24 years was accounted for, to a large extent, by the 14–17-year group, a group in the main not drawn into miiltary service. This trend holds true both for the trend linking December of each year (1947–53) and the trend linking annual averages of the monthly data. (See tables XI and XI–A.)

TABLE XI.—*Civilian labor force participation rate of male youths, by age*

[December of each year]

Year [1]	Total population (thousands)				In labor force (thousands)				Participation rate (percent)			
	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years
1947	2,093	2,146	1,897	5,590	361	951	1,337	4,625	17.2	44.3	70.5	82.7
1948	2,081	2,096	1,940	5,430	436	972	1,367	4,578	21.0	46.4	70.5	84.3
1949	2,136	2,050	1,896	5,369	456	870	1,367	4,594	21.3	42.4	72.1	85.6
1950	2,193	2,035	1,826	4,981	526	946	1,274	4,318	24.0	46.5	69.8	86.7
1951	2,226	2,092	1,668	4,006	416	992	1,222	3,554	18.7	47.4	73.3	88.7
1952	2,285	2,131	1,654	3,728	447	970	1,115	3,284	19.6	45.5	67.5	88.1
1953	2,297	2,138	1,693	3,476	341	911	1,159	3,009	14.8	42.6	68.5	86.6

[1] December of each year.

TABLE XI-A.—*Civilian labor force participation rates of male youths, by age*

[Annual averages of the monthly data]

Year [1]	Total population (thousands)				In labor force (thousands)				Participation rate (percent)			
	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years	14 to 15 years	16 to 17 years	18 to 19 years	20 to 24 years
1947	2,118	2,175	1,840	5,536	586	1,106	1,382	4,629	27.7	50.9	75.2	83.6
1948	2,176	2,128	1,951	5,528	573	1,109	1,491	4,674	26.4	52.1	76.4	84.5
1949	2,106	2,062	1,884	5,406	577	1,056	1,421	4,681	27.4	51.2	75.5	86.5
1950	2,174	2,043	1,920	5,271	623	1,047	1,457	4,632	28.7	51.1	75.8	87.8
1951	2,208	2,038	1,687	4,452	611	1,080	1,266	3,935	27.6	53.0	75.1	88.3
1952	2,255	2,121	1,647	3,789	585	1,101	1,210	3,338	26.0	51.9	73.3	88.1
1953	2,286	2,125	1,703	3,491	552	1,067	1,248	3,073	24.1	50.1	73.2	88.0

[1] Annual average (of monthly data).

In table XI, giving data for December of each year, the 14- and 15-year participation rate declined from 24 percent in December 1950, to 14.8 percent in December 1953. In the same period, the 16- and 17-year group dropped from 46.5 percent to 42.6 percent. One might have expected a contrary trend amongst these youths for, with their somewhat older contemporaries being drawn into the Armed Forces, and with the demand for manpower presumably increasing rapidly, there should have been greater pressure for the 14- to 17-year nonmilitary age youths to go into the labor force. There was some such result for the 16- and 17-year-olds, whose rate rose slightly from 46.5 percent in December 1950 to 47.4 percent in December 1951. Similarly, and to a greater extent, amongst the 18- and 19-year-olds, whose participation rate rose in the same year from 69.8 percent to 73.3 percent.

Nevertheless, the overall trends of the participation rates for the 14- to 15- and 16- to 17-year-olds was downward after 1950. Reference to table XI shows that the major portion of this decline took place in the year from December 1952 to December 1953. And, most important, it is quite clear from table XII that the decline occurred in the latter half of 1953, when the recession began to develop seriously and job opportunities disappeared.

TABLE XII.—*Labor force participation rates of young men, by age, 1953*

1953	14 and 15 years		16 and 17 years		18 and 19 years	
	Rate	Change from year ago	Rate	Change from year ago	Rate	Change from year ago
January	20.7	+0.2	44.5	+2.2	69.4	−1.0
February	20.8	+.5	44.8	−.9	71.2	+4.7
March	20.2	+.5	47.5	+3.7	66.4	−3.0
April	20.2	−1.6	49.8	+3.8	69.1	+1.7
May	21.3	−1.9	49.1	−2.0	65.0	−4.0
June	37.2	−5.1	61.9	−2.8	82.2	−.7
July	40.0	−2.8	66.1	−2.1	86.8	−1.4
August	33.9	−2.9	65.2	−1.0	85.7	−.5
September	23.1	−.9	44.2	−5.9	73.6	−.2
October	19.5	−.5	42.6	−7.1	71.8	+1.7
November	17.9	−2.4	44.9	−4.4	69.5	−.8
December	14.8	−4.8	42.6	−2.9	68.5	+1.0

Source. MRLF, 1953.

This development is especially clear for the youngest groups, the 14- to 15- and 16- to 17-year-olds, who are the first to feel the effects of a shrinking job market.

In these 2 groups, in the 1953 months up to spring, the participation rate was greater than the corresponding period a year ago. But after the spring, the rates show an increasingly large lag, toward the end of 1953, behind the corresponding rates a year ago. The same development is present for the 18- and 19-year-olds, although not so clearly.

The general conclusion which is inescapable from detailed examination of the "anatomy" of all the data on young men is that their labor-force participation declined in close correlation with deteriorating economic conditions and the lack of job opportunities. Census reports on their participation have improperly excluded from the labor force thousands of youths who would be working if jobs were available.

CENSUS OVERESTIMATION OF THE LEVEL OF EMPLOYMENT

In estimating the level of total employment, the Census Bureau includes two categories of workers who should properly be counted amongst the unemployed. These two categories, simply on the basis of definition, reveal very sharply and clearly the bias of the Federal unemployment estimates against adequate reporting of the actual volume of unemployment.

Workers temporarily laid off counted as employed

First, the census improperly includes in employment the entire number of workers, among those who are "with a job but not at work," who have been temporarily laid off and those who are awaiting a new job or business—in both cases, the actual employment expected to materialize within 30 days. These individuals did no work whatsoever during the particular census survey week and hence must be counted as unemployed. In January 1954 there were 347,000 of these unemployed workers, who should be subtracted from the census-reported total of employment.

It should be noted that in January 1954, there were 273,000 workers temporarily laid off, 41 percent more than a year earlier. In addition, this was by far the highest figure for the month of January of any postwar year except 1949, and only slightly under the January 1949 figure of 286,000. This sharp increase of temporary layoffs was not reflected at all in census-unemployment totals.

Workers involuntarily employed for as little as 1 hour a week counted as employed

Second, census estimates of employment count as fully employed workers who involuntarily are working as little as 1 hour per week. The census makes no distinction between a worker employed 40 hours a week and one who works only a few odd hours. It is entirely incorrect to count as employed those "odd job" workers who want full-time work and would take it if it were available.

The UE estimates that in January 1954 there were 291,000 such part-time workers. This 291,000 must be subtracted from the total employment figure as reported by the Census Bureau.

Several special census studies have shown that between 15 and 30 percent of part-time workers desire full-time work. Thus, the UE has devised a formula permitting calculation of unemployment among the part-time workers on the conservative basis that 15 percent of the part-time workers employed less than 15 hours should be considered unemployed.[7]

Statement of Anthony Valente, International President, United Textile Workers of America, AFL

We cannot tell you if our national economy is headed for a depression or for prosperity—we do not know. We can tell you that the textile industry is depressed, and all available sources of information will support this statement. In almost every report received from State and Federal agencies handling employment figures, you will find the decline in textiles pronounced and heavy in varying degrees.

We are dealing with an industry employing approximately 1 million workers, with about 8,000 mills spanning and crisscrossing the Nation from coast to coast and from border to border. For statistical purposes, the Department of Labor divides the industry into regions such as New England, the Middle Atlantic, the Southeast, the Southwest, the Great Lakes, the Border States, and the Pacific. Attached hereto is a list of the States within each of these categories (exhibit A).

For the purpose of this statement, I will attempt to simplify our explanation by treating chiefly with the two regions employing almost two-thirds of the textile working force—the Southeast and New England; and with two branches of textiles—cotton and synthetics and woolen and worsteds. At the same time I want to emphasize, however, that the employment conditions which I bring to your attention herein exist throughout the industry and not only in the Southeast and New England.

The unemployment and underemployment in textiles takes on a more serious aspect when we consider that in numerous communities in New England and in the South textiles is the principle industry, and, in many towns, the only means of employment. That is one of the reasons why we have struggled to have Government contracts channeled into distressed areas, a policy supported by President Eisenhower in his announcement of Tuesday, December 29, 1953. We know, of course, that even if this policy was carried out to the letter, it would not solve the textile employment problem. But it would help if procurement officials would carry out the directives of the Office of Defense Manpower.

Without discussing this issue in detail, I am attaching hereto pertinent material bearing on the subject (exhibit B). I wish only to add that we are receiving numerous pleas from the South, and in particular from Senator Maybank's State of South Carolina (exhibit C), for allocation of contracts. The Senator, as you know, is leading the opposition to the President's directive for aid to distressed areas.

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[7] For details of this formula, see the UE publication, National Unemployment Estimates, by Bruce Waybur and Russ Nixon, March 1949; and Russ Nixon, Correction of Census Bureau Estimates of Unemployment, in the Review of Economics and Statistics, February 1950, pp. 50–55.

NEARLY ONE-HALF MILLION UNEMPLOYED OR UNDEREMPLOYED

Our reports from the field gives us a breakdown of employed, unemployed, and underemployed. Our estimates do not agree with Government textile figures, which shows a complete separation of approximately 100,000 workers in the year 1953. Our spot check reports from all regions indicate the separation of 125,000 workers, with the figure still rising. It should also be mentioned that Government surveys do not include the underemployed or part-time workers. Our survey leads us to the conclusion that about 375,000 textile workers are working 2, 3, or 4 days a week. While there have been some mill closings in the South, the chief cause of distress in that region is part-time employment.

We can also state that more than 45 percent of the present working force are employed part-time with further curtailments in prospect. The average weekly hours in New England and the South are now down to 36, according to our representatives' estimates. To get a clear picture of what this means we must, of necessity, discuss wages and conditions.

In December 1953, the average hourly wage for all manufacturing was $1.79, as compared to $1.37—or 42 cents less—for over 1 million textile workers. This industry, second only to food as an essential one, is close to the bottom of the industrial wage ladder. This industry, which has reached the highest point in man-hour productivity, is on the low level of consumer demand.

The tremendous gain in man-hour production can be visualized by a concrete example. With all the textile migrations, liquidations, and employment losses in New England that region is producing more textiles today than it did in 1920.

Right here we bring our problem into focus, not with the words of labor representatives but in the work and studies of Paul Mazur, a recognized authority, economist, banker, and financial adviser. In his recent book, The Standards We Raise, Mr. Mazur answers the question, "How can we secure a rising level of prosperity at a time when recession threatens?" He calls for a shift of emphasis from production to consumption with an increase in living standards.

In this connection we can tell you that 1 million textile workers, comprising a family consumer power of 5 million people, are unable to satisfy their wants and requirements. In many cases they are denied even life's necessities and are forced to eke out a meager existence because of low wages and insecure employment conditions. In our experience we have known the breadwinner of the family, the weaver of sheets, who could not afford to put sheets on his bed. We cite this fact in our effort to convince the committee that the basic cause of unemployment is underconsumption, and this Congress should not adjourn without prescribing measures for the stimulation of purchasing power and increased consumer demand.

MINIMUM WAGES

We will not attempt to analyze the President's economic report and recommendations to Congress. Our comment is directed to the failure of the President to recommend an increase in the minimum wage. Here was an opportunity to invoke a living wage and an increase in purchasing power for millions of workers, thereby stemming the tide of unemployment. Congress can and should do this. In times such as these, a waiting game can be tragic. No one, in or out of Congress, who has never experienced the plight of the unemployed can realize the physical deprivation and mental torture of the victims. It will be a calamity if Congress closes its eyes and hearts to this problem and leaves Washington with the false notion that this economic dislocation will right itself.

On the same day the President bypassed an increase in the minimum wage under the Fair Labor Standards Act, the Secretary of Labor handed down the long-awaited decision increasing the minimum wage for the woolen and worsted industry from $1.05 to $1.20, under the Walsh-Healey Public Contracts Act. This followed the decision of the late Secretary of Labor, Maurice Tobin, on January 15, 1953, increasing the cotton and rayon minimum from 87 cents to $1. This wage determination was enjoined by a group of Southern textile manufacturers, and the issue is now gathering dust in the courts while hundreds of thousands of low-paid workers are deprived of their rightful wages. The minimums in these industries had not been raised for 5 years. During that time living costs soared to the highest point.

The $1 an hour minimum was blocked with the aid of the Fulbright amendment, a rider added to the Defense Production Act in 1952, paving the way for court actions, weakening Walsh-Healey legislation and administration, and causing endless delays which practically nullifies minimum standards and freezes wages at subnormal levels in Arkansas, Mississippi, and other Southern States.

The cotton and rayon and woolen and worsted mills in New England and the Middle Atlantic States have been, and are now, paying these prescribed minimum wages. A few cotton and rayon mills in the South are also paying the minimum, but 500,000 unorganized southern textile workers have no protection either from the Government or the union and we are prevented from organizing by the unfair provisions of the Taft-Hartley Act and by a conspiracy of opposition as demonstrated in one instance by the attached letter received from the Chamber of Commerce of Orangeburg, S. C. (exhibit D).

This denial of organizational rights is a valid reason to urge Congress to act against this attack on minimum standards as a means of reemployment, decent working conditions and increasing consumer demand. In addition, Congress can ease the misery of unemployment by accepting and passing the President's recommendations for increased unemployment insurance and lengthening of the time period.

We also recommend a minimum wage of $1.25 an hour under the Fair Labor Standards Act, and a reduction of the 40-hour work week as a compensatory measure for increased man-hour productivity. The textile industry is in dire need of immediate congressional regulatory action. We, therefore, urge your support of H. R. 574, the national textile bill now before Congress.

We recommend to you a study of the textile industry made by the Conference of New England Governors in 1952, as well as a series of three speeches delivered in the Senate by Senator John Kennedy. Also attached hereto are two articles taken from a textile trade paper, one dealing with unemployment insurance claims in the southern textile States (exhibit E), and the other a reference to the closing of four mills in the State of North Carolina (exhibit F).

In closing, we respectfully urge serious consideration and favorable action on the part of Congress to the unemployment problem in the textile industry.

Exhibit A

Textile Designated Regions With Breakdown Into States

New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.
Middle Atlantic	New Jersey, New York, and Pennsylvania.
Border States	Delaware, District of Columbia, Kentucky, Maryland, and West Virginia.
Great Lakes	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.
Southeast	Alabama, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.
Southwest	Arkansas, Louisiana, Oklahoma, and Texas.
Pacific	California, Nevada, Oregon, and Washington.

NOTE.—There are textile plants in States not mentioned here. The BLS textile surveys omit plants with less than 21 workers.
Source: Bureau of Labor Statistics, 1952.

Exhibit B

Surplus Labor Areas

In connection with the set-asides of Government contracts for distressed areas, we reported last month that out of 42 designated surplus labor areas, 25 were south of the Mason-Dixon line; only 3 in New England: Lawrence and Lowell, Mass.; and Providence, R. I.

This was our reply to the unfortunate attempt by Senator Mayband and others, to inject sectionalism into the effort to provide Government contracts for idle workers in distressed areas. Since then we have had scores of messages from the South, including the State Mr. Maybank represents in the United States Senate, South Carolina. These letters and resolutions explain the unemployment situation and plead to be included in the set-aside policy.

GOVERNMENTS CONTRACTS

On Monday, January 25, at a conference with Secretary of Labor Mitchell, he told us that the employment classifications had been changed for release the next day, and while he agreed with us and President Eisenhower on the policy of channeling Government contracts to distressed areas, our membership should understand that Government contracts have been greatly reduced during the past year. We knew about the reductions but we expect the procurement agencies to carry out the President's directive and report on what is being done to provide work for the unemployed.

The international officers will meet with the officials of the Defense Mobilization Agency in the effort to secure all available contracts for distressed unemployment areas.

In the woolen and worsted minimum wage decision, handed down on January 28, the Secretary announced that from May 1951, through March 1953, a total of 696 Government contracts subject to the Public Contracts Act, of a total value of $516,023,000 were let for products of the woolen and worsted industry.

In the new surplus labor classifications, 9 more areas have been added to the 42 named in the November listings. These are the areas now listed in group IV as the most seriously effected by unemployment:

Lawrence, Mass.
Lowell, Mass.
New Bedford, Mass.
Webster, Mass.
Providence, R. I.
Atlantic City, N. J.
Gloversville, N. Y.
Mayaguez, P. R.
Ponce, P. R.
San Juan, P. R.
Cumberland, Md.
Asheville, N. C.
Durham, N. C.
Winston-Salem, N. C.
Altoona, Pa.
Clearfield-DuBois, Pa.
Indiana, Pa.
Johnstown, Pa.
Pottsville, Pa.
Scranton, Pa.
Middlesboro-Harlan, Ky.
Paintsville-Prestonburg, Ky.
Herrin-Murphysboro-West Frankfort, Ill.
Kenosha, Wis.
Texarkana, Tex.-Ark.
Sunbury-Shamokin-Mt. Carmel, Pa.
Uniontown-Connelsville, Pa.
Wilkes-Barre-Hazleton, Pa.
Big Stone Gap-Appalachia, Va.
Covington-Clifton Forge, Va.
Beckley, W. Va.
Fairmont, W. Va.
Morgantown, W. Va.
Parkersburg, W. Va.
Point Pleasant, W. Va.
Ronceverte-White Sulphur Springs, W. Va.
Gadsden, Ala.
Jasper, Ala.
Cedartown-Rockmart, Ga.
LaFollette-Jellico-Tazewell, Tenn.
Newport, Tenn.
Muskegon, Mich.
Corbin, Ky.
Hazard, Ky.
Madisonville, Ky.
Pikeville, Ky.
Ionia-Belding-Greenville, Mich.
Terre Haute, Ind.
Vincennes, Ind.
Albuquerque, N. Mex.
Tacoma, Wash.

RESOLUTION

Resolution unanimously adopted by South Carolina Textile Council composed of all affiliated local unions in South Carolina of the United Textile Workers of America, American Federation of Labor, on Sunday, January 31, 1954.

Whereas the President of the United States has directed the Federal procurement agencies to negotiate contracts with firms in labor surplus areas at prices established through competitive formal bidding procedures; and

Whereas this revised manpower policy seeks to encourage prime contractors to award subcontracts to firms in labor-surplus areas, in order to help relieve distress and furnish work; and

Whereas we have gone over carefully the designated areas as classified by the Department of Labor as of January 26, 1954, and find that out of 140 designated labor-surplus areas, 57 are in the South; and

Whereas we along with other interested groups are seeking to have additional areas in the South added to this list, due to continued and widespread unemployment; and

Whereas we have followed the bitter fight of Senator Burnet R. Maybank of South Carolina against this defense manpower policy of the President; and

Whereas we emphatically deny that the workers in South Carolina are satisfied with conditions; or the attitude of Senator Maybank; now, therefore, be it

Resolved, That, we the United Textile Workers of America, AFL, and all affiliated local unions in South Carolina, respectfully request Senator Burnet R. Maybank to cease his fight against this defense manpower policy, which, if carried out, will enable many of us in South Carolina and throughout the South to work and earn a living for our families; and be it further

Resolved, That we respecfully request Senators Maybank and Johnson, and all Congressmen from South Carolina to use their influence in support of this defense manpower policy; and be it further

Resolved, That a copy of this resolution be sent to all Members of Congress and Senate from South Carolina, to all Members of Congress and Senate from the States wherein any area has been designated as a labor-surplus area, a copy to the President of the United States, Vice President of the United States, to the Speaker of the House, and copies to the international office of the United Textile Workers of America, affiliated with the American Federation of Labor.

SOUTH CAROLINA TEXTILE COUNCIL,
JAMES SMITH, *President.*
C. H. PEARSON, *Secretary-Treasurer.*

EXHIBIT D

Following is a copy of a letter which was mailed by the Chamber of Commerce of Orangeburg, S. C., to the employees of a packinghouse in that city in October 1953.

DEAR ——————: It has been reported to us that you are actively supporting the union in its attempt to organize the Southland Provision Co.

We would not care whether the company was unionized or not, if it were not for the fact that we are afraid that this union activity will result in Orangeburg losing a payroll of about one-half a million dollars and about 175 Orangeburg citizens losing their jobs.

Union activity has already caused Orangeburg to lose one industry this year.

The merchants and citizens of Orangeburg are requesting us to circulate after the election, the names of those who tried to help the union and hurt Orangeburg. We intend to do this.

The merchants and citizens of Orangeburg feel that those who help run industry away from Orangeburg and who cause Orangeburg to lose the benefits of large payrolls should not be given any special privileges in the future in the way of job preference, credit, etc.

For this reason, if you are not active for the union, please notify us so we will not do you the injustice of putting your name on the blacklist.

Sincerely yours,

——— ———.

EXHIBIT E

[From the Daily News Record, The Pulse of the Market (textile trade paper), Thursday, January 21, 1954]

RISE IN UNEMPLOYMENT INSURANCE CLAIMS SAID TO SHOW EXTENT OF CURTAILMENTS

Unemployment insurance claims in a number of key textile-producing States are said to emphasize the extent of curtailment and shutdowns. In many merchandising centers in the New York market, there is a tendency to discount reports of curtailment. However, Government figures on applications for unemployment insurance filed for the week ended January 9 are said to point up the reduced operations.

While the Government figures cover all industry, it is pointed out that textiles represent a major producing element in certain States.

Total claims for unemployment, and the increases in unemployment insurance claims, in some textile-producing States, as reported by the United States Department of Labor, for the week ended January 9, are:

State	Total	Rise from previous week	State	Total	Rise from previous week
North Carolina	23,733	12,037	Alabama	6,151	2,499
Pennsylvania	56,455	9,045	South Carolina	6,765	3,657
Virginia	7,912	4,279	Georgia	7,560	3,127

The report notes that administrative factors, layoffs due to inventory taking, lack of orders, production changes, particularly in the textile industry, accounted for the increase in North Carolina."

[From the Daily News Record (extile trade paper)]

FOUR NORTH CAROLINA MILLS CLOSE, ONE LIMITS OUTPUT

GASTONIA, N. C., February 1.—Five textile plants in and around Kings Mountain employing more than 700 have halted operations or are running on limited schedule.

Although termed "seasonable" declines by some executives, it is believed by others to be worse. One textile man remarked it was a hand-to-mouth situation, with customers demanding immediate shipment.

A check at Kings Mountain revealed that Bonnie Cotton Mills, with about 100 employees, is closed because of lack of orders and to make machinery installations. It expects to resume operations soon on a 3-day basis. Consolidated Textiles, Inc., with a payroll of 285, is operating on a week-on-week-off basis.

Other plants that have closed because of lack of orders are: Slater Manufacturing Co., with 60 employees; Kings Mountain Manufacturing Co., with 115; and Freida Manufacturing Co., at Crowders Mountain, recently purchased by Carlton Mills, Inc., with 150.

NATIONAL GRANGE,
Washington D. C., February 12, 1954.

HON. JESSE P. WOLCOTT,
Chairman, Joint Committee on the Economic Report,
House Office Building, Washington 25, D. C.

DEAR CONGRESSMAN WOLCOTT: Because I will be out of town next week, I will be unable to attend the panel discussion on the 1954 Economic Report of the President. I regret this because we pin much of our hope for continued prosperity upon the work of the Council of Economic Advisers and your committee. I will try to reflect my thinking on the proper economic policy for this country in the letter below.

It is our belief that the farm situation of today is a serious threat to the economic stability of the entire economy. Already rural merchants have noticed declining sales. This has been reflected back especially hard not only to farm-machinery manufacturers, but to other industrial segments as well. This causes unemployment, which further reduces purchase power, and, like a snowball, it might pick up speed and size by itself.

It is the nature of the demand for farm products that a small surplus greatly reduces the farmer's price. At the same time supply on the overall does not shrink, so depressed prices become chronic. The farmers helped win the war and hold the peace by abundant production, but now that very abundance is a threat to his, and the Nation's, economic well-being.

The right solution to the farm problem is expanded markets at home and abroad. The control of production approach, repugnant to the American farmer and to our way of life, should be used only as a last resort. Even though world agricultural production has come up considerably since the war, the world population has increased too, and we believe that under freer world trade, many peoples of the world would trade their wares for our farm products in order that they might eat better. Much can be done to increase consumption right in our own country, especially among the low-income group.

One reason for our loss of foreign markets is that we have had a high, rigid price-support program to prevent the war-induced surpluses from penalizing the farmer. This has raised our domestic price above the world market, and because we have been unwilling to sell at competitive world prices, our surpluses have piled up while foreign producers supplied the world market. We need some device to enable us to maintain our normal and historical share of the world market by meeting the price of others in good faith.

We believe in modernized parity and flexible price supports for long-range farm policy, but we must approach them gradually or else we will plunge rural America into a depression and the rest of the economy will not be far behind. It is essential that when we go into the flexible price supports, we do not count the present artificial surplus in determining the support level.

Flexible price supports will not be a satisfactory farm program ever, unless, we have succeeded in enlarging the overall market for farm products in the meantime. Flexibility in farm price supports serves a useful function in establishing differential price incentives for individual crops in line with consumer wants, and to take account of charges in cost of production, but flexibility does not work so well when it lowers the whole price level of our agricultural economy. We recognize that if we have chronic overcapacity in agriculture, we must do something to encourage resource adjustment.

We are in accord with the administration's flexible use of monetary policy, We believe in having a shelf of worthwhile public works projects. We believe in removing unduly burdensome taxes on business in order to stimulate capital expansion, and the reduction of taxes on consumers as the budget permits. Because of present unsettled economic conditions, the Grange would favor raising the debt ceiling to recognize the fact that if even a moderate recession should occur tax receipts would fall off; and that to raise tax rates in such a period would serve to promote the recession.

We are impressed with the soundness of the measures which the President recommended to strengthen the economy. We are quite confident that we will soon overcome the present slump and again resume our normal economic growth.

Sincerely yours,

HERSCHEL D. NEWSOM, *Master*.

STATEMENT BY HAROLD C. MCCLELLAN, PRESIDENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

I am grateful to the joint committee for this opportunity to comment upon the Economic Report of the President transmitted to the Congress January 28, 1954, because this is one of the most significant documents in use on basic economic policies, both governmental and private. My remarks will be confined to certain aspects of the report and related matters and a few brief comments on certain central issues brought out in the testimony of others before this comittee.

The National Association of Manufacturers consists of more than 20,000 member companies, and their keen interest in economic policies is evidenced by the participation of more than 2,500 industrialists in the work of 13 policy committees of the association dealing continuously with many of the problems presented in the President's Economic Report.

The Council of Economic Advisers is to be congratulated for its professional competence and penetration, its fairness and balance, and many other fine qualities which are evident in the assistance acknowledged by the President in preparing this report. Profound appreciation is also due the advisory board on economic growth and stability, the auxiliary staff committee, and the interagency task forces.

THE TREND IS GOOD

It is immediately obvious that a tremendous advance has been made toward solving some of our national problems. Federal spending has been curtailed sharply. Taxes have been reduced and the excess profits tax has been terminated. We are moving toward a balanced budget, and many questionable governmental operations are being carefully examined with a view toward making needed corrections.

Millions of dollars are saved daily by actions already taken to bring about greater efficiency in government. The trend is good. This commendable vigilance deserves encouragement, but it should be recognized that the difficulty of correcting 20 years of misgovernment and mismanagement is very great and will take time.

AGREEMENT ON BASIC OBJECTIVES

This association is deeply pleased with the recently announced broad basic objectives of the President, even though we may have some honest differences of opinion with him as to the best means of obtaining some of these objectives. While industry obviously cannot offer a blanket endorsement of all the policies and programs suggested in the President's Economic Report—such as those which deal with agriculture and other areas outside our field—we are in hearty agreement with most of the economic philosophy as expressed, for example, in that section of the report entitled "The Basis for Progress," to wit:

"The Government can greatly help to maintain prosperity. But it is well to recall the accumulated experience of generations which has taught us that no government can of itself create real and lasting prosperity. A thriving economy depends fundamentally on the enterprise of millions of individuals, acting in their own interests and in the interests of their families and communities. The American people are highly skilled, imaginative, enterprising, and forward-looking. The best service that the Government can render to our economy, besides helping to maintain stability and insuring a floor of protection for the population, is therefore to create an environment in which men are eager to make new jobs, to acquire new tools of production, to improve or scrap the old ones, design new products and develop new markets, increase efficiency all around, and thus be able and willing to pay higher wages and provide better working conditions. The Federal Government is fostering, and will continue to foster, this kind of environment."

LONG-TERM VIEW IMPORTANT

Close study of the report and of some of the testimony heard by the joint committee indicates that it may be important to draw a sharp distinction between the short-term view and the long-term view in matters of economic policy, just as the report has made a clear distinction between a basic program and an emergency program.

There is, and must continue to be, a good deal of flexibility in the economic policies of both Government and business, but fundamental economic principles and basic laws must not be whipsawed and battered about by every minor change in the wind. If the long-term view prevails and the basic program continues, the intermediate and short-term problems can be met with a minimum of strain and uncertainty.

NO ANTIRECESSION BLUEPRINT

In connection with an emergency program or antirecession program, the Economic Report has, of necessity, attempted no detailed blueprint of specific actions. It has, instead, taken stock of our weapons and has enumerated certain principles of action, both preventive and remedial.

It would be a mistake for the American people to place full reliance and responsibility upon the Federal Government to bail us out of a recession if one were to develop. That is mainly a job for individual remedies, in an economic climate or framework established by Government. Passing the buck to Washington will not solve the problem.

However, there seems to be no prospect for a serious turndown in business generally for the year 1954, or for any of the years in the immediate future, provided that: (1) The trend toward a balanced budget is ardently continued, (2) expenditures are reduced as far as possible without impairing our national security, (3) business incentives are increased by a sound tax policy, and (4) the Government assures business a climate favorable to expansion rather than restriction and uncertainty.

Further reduction of expenditures can be achieved, in part, by diminishing international commitments through tightening the criteria for foreign military and economic aid programs with a view toward substantially reducing their cost, and also by the shifting to State and local governments and to private enterprise of Federal activities which can be more appropriately and more efficiently carried on in that way.

The basic economic program is the important thing for America's present and future. We have had more than enough of emergencies for two decades past.

Now the years of continuous inflation have ended. Unaccustomed as the people of this Nation are to economic stability and moderate fluctuations, many seem to have assumed that the end of inflation must be the beginning of depression. Many have also assumed, it seems, that the remedy is to resume inflation.

BUSINESS INVESTMENT VERSUS CONSUMPTION

There has been a great deal of discussion in the hearings before this committee of the issue of business investment versus consumption as the road to continuous prosperity. The fact is that both investment and consumption are essential to prosperity. Manufacturers are just as keenly aware of the importance of consumer demand and purchasing power as any other business people. They do not, however, subscribe to the idea that all emphasis should be placed upon consumer expenditures. Neither does the Council of Economic Advisers.

Advocates of the so-called purchasing-power theory press continuously for more money. They seem to have no fear of Federal deficits and excessive Government spending so long as they get more money. They have seen the real dollar go down to a 50-cent dollar, but they still talk about purchasing power as though it is merely a question of pumping out money.

The actual gains in the real purchasing power of labor over the past 15 years have been only slightly greater than the overall gains in productivity. All the money obtained above that has been entirely froth and foam resulting from inflation.

Industry is intensely interested in consumers, but it wants those consumers to be paid in sound money and to build their savings in sound money. We must not resume inflation.

EXAGGERATED RECENT IDEAS OF EXPANSION

It has been said that business investment has been going along very well for many years and hence does not require encouragement or special emphasis in the Government's economic programs. This viewpoint overlooks the fact that about four-fifths of the business investment in recent years has been needed merely to replace the capital values currently used up. Only about one-fifth of business expenditures for fixed assets represents net expansion.

This has not been generally understood, partly because one of the effects of inflation is that allowances made for depreciation in business accounts are far less than the actual cost of replacing the capital goods consumed. Thus, the large investments in new plant and equipment have been primarily for replacement and improvement, while expansion has been much less than is generally believed.

LARGE DEBTS INCURRED

Another important point that is often overlooked is the fact that the chief source of funds for corporate expansion in general during the postwar period has been borrowing, as distinguished from equity capital or venture capital. Corporate debt has increased by more than 80 billions of dollars since the end of 1945.

Inflation and debt go hand in hand, and the past 2 decades have built up total public and private debt to a staggering total of 550 billions of dollars. Yet some people blandly suggest that business investment is doing all right and that there is no need to worry about it.

It has been freely admitted, even by the purchasing-power school of thought, that we cannot have a dynamic economy without new investments. It should be added that those investments should be soundly conceived and soundly financed.

INCREASED CAPACITY NEEDED

The fact that industrial capacity is not being fully utilized at a particular time does not mean that further business investment needs no encouragement or stimulation. That is indeed a shortsighted view. If we take the long-term view as a basis for fundamental economic policies, it is at once apparent that enormous future growth is required and we must raise our sights to hit that target.

Additional industrial capacity often involves building whole new factories, which must be foreseen years in advance. Building a factory, a steel mill, or even an assembly plant may take 2 or 3 years of engineering, financing, and construction before it finally gets into operation and begins to pay its way. It is not a question of what the operating rate is today or how much capacity we happen to have now. It is a question of maintaining long-term dynamic growth through business investment.

ENORMOUS DYNAMIC GROWTH AHEAD

Directly ahead lies an era of production and expansion of a magnitude and scope beyond anything ever witnessed in the past, if only our basic economic policies are formulated with such an era in mind. This is not merely wishful thinking. Our population is expected to pass the 200-million mark within 20 years or so, and may reach 221 million. In addition to the upward trend in population, which is going on right now, is the steady rise in productivity and in the individual standard of living. We cannot escape the responsibility of providing for such growth, nor have we any desire to escape it.

This association has pointed out repeatedly that huge populations are a liability rather than an asset if they are non-productive and without equipment or resources. This is where business investment comes into the picture—capital goods and equipment on a large scale. This is where technology comes in too, and natural resources. Only when we have all of these factors of production working in harmony do we have a truly productive labor force and the fastest rising standard of living in the world.

MILLIONS OF NEW JOBS

The civilian labor force in 1975 may well exceed 87 million persons as compared with 65 million recently. Roughly 22 million new jobs must be filled, over and above the number of jobs or occupations in today's American economy. The manufacturing industries alone have total assets of more than $165 billion, including machinery, raw materials, and all the other things which make jobs in industry. This investment averages roughly $12,000 per production worker. Twenty-two million new jobs at an average of $12,000 each means that the assets of American business must be built up by about $265 billion by 1975; not to mention the cost of replacing old equipment as it wears out or becomes obsolete. You cannot have the jobs and rising living standards without the assets behind them.

It has been estimated that the total amount of goods and services to be produced in 1975 may run as high as $700 billion compared with $370 billion today—figured on the basis of today's prices. Such an outpouring of goods and services is certainly a magnificent goal. It is not a goal that we will reach, however, if we block the road of technological progress or any of the basic factors of production through bad taxes or unsound fiscal policies or unreasonable interference with business.

STIMULATING PRODUCTIVITY THROUGH INVESTMENT

I want to emphasize at this point the importance of constantly increasing productively through continuous stimulation of business investment. The gains in productivity are in due course the gains in our standard of living. Productivity is somewhat like compound interest in its effect over the long term. Population growth might be compared with deposits in your bank account—for purposes of illustration—but productivity builds up the original account, the additional deposits, and compounds itself besides. And 3 percent compounded results in a doubling every 25 years.

Productivity is the rate at which the economy converts human exertion into want-satisfying goods and services. The whole economy is involved in productivity, and consequently the actions of all economic groups have their effects upon productivity. There are the tasks of engineers and financiers. There are the efforts of labor and the skills of labor, and the hours of work. There are the efforts and skills of business managers in efficient planning and operation; competitive spirit, willingness to assume risks, and aggressive expansion of markets.

Additional factors in productivity include governmental policies dealing with taxation, competition, and business size. The willingness of the public to save and invest is a crucial factor in providing the means of improving and expanding our facilities and boosting productivity. The most important fact to remember right now about productivity is that it has been increasing over the decades at an average rate of 2 or 3 percent per year, and this trend is likely to continue for many years ahead in our competitive enterprise system if we do everything practicable to stimulate it.

ELIMINATING OLD ROADBLOCKS

Over a period of years there has developed a pattern of Government interference in economic affairs which has had the effect of creating roadblocks upon the highways and pathways over which the people of this country must travel to reach the heights of greatness ahead. Such a roadblock is unsound money, produced by excessive Government spending and unbalanced Federal budgets. Excessive taxation has drained away much of the venture capital now needed in the development of the new industrial processes and techniques which are becoming available to industry.

Time after time Americans have united in support of the all-out efforts required to defend their country and its way of life. There must be widespread public understanding of the rewards and satisfactions which will come to the people of this country through combining their efforts in peacetime to build a better America. This is a job that rests upon all Americans, and I am sure that when the goals are clear the people will move with irresistible force toward those objectives.

The National Association of Manufacturers wishes to work toward creating and maintaining the conditions under which free private competitive enterprise can best operate in the public interest. I believe that is the objective of congressional policy, and the Economic Report of the President has contributed greatly to clarifying the problems.

Chairman WOLCOTT. Without objection, the press release of the Department of Commerce in respect to this new sample and revised unemployment figures may be put in the record at this point.

(The press release referred to follows:)

Secretary of Commerce Sinclair Weeks announced today that the Bureau of the Census is now testing a new sample of wider coverage to improve its methods of estimating employment, unemployment, and the labor force.

"Since 1943 the Census Bureau's method of estimating employment and unemployment has been used almost without change," the Secretary said. "It was clear last year that improvements should be made. Therefore in August 1953 I approved a new plan designed to improve present methods of sampling.

"Ordinarily the Bureau would not release tentative figures of a test project until an opportunity had been had to evaluate completely the results. But, since preliminary figures of the first complete trial enumeration of the new sample, taken in January, show estimates of greater unemployment than the old sample, I am requesting the Census Bureau to release both old and new sample estimates until a final determination has been made as to which method is the more accurate."

The old sample was based on about 25,000 households located in 68 sample areas covering 123 counties. The new sample, like the old, consists of 25,000 households but is more widely distributed in 230 areas covering approximately 450 counties.

A tabulation of the old and new samples for the month of January follows:

	Old sample	New sample
Total noninstitutional population, 14 years old and over	115, 738, 000	115, 738, 000
Total labor force, including Armed Forces	65, 589, 000	66, 291. 000
Civilian labor force	62, 137, 000	62, 840, 000
Employed	59, 778, 000	59, 753, 000
In agriculture	5, 345, 000	5, 284, 000
In nonagricultural industries	54, 433, 000	54, 469, 000
Unemployed	2, 359, 000	3, 087, 000
Not in labor force	50, 149, 000	49, 447, 000

The results of the new sample are tentative and still uncertain, since many of the field staff were new and still in the training period in January. Differences are to be expected between the estimates from the 68-area sample and the preliminary estimates from the 230-area sample because of sampling considerations, because of the different levels of experience of the field staffs, and because of differences in the supervision provided during the period of transition.

Two additional actions are being taken: (1) The differences between the new and old samples are being analyzed by the technical experts of the Bureau who are carefully studying the operation of both the old and the new samples. (2) In order to take a fresh look at the problem, Secretary Weeks, at the recommendation of Dr. Robert W. Burgess, Director of the Census Bureau, is appointing a special advisory committee of outstanding experts. It will study and make recommendations on the methods and procedures used in the Current Population Survey, which is the source of employment and unemployment estimates.

It should be noted that a very important aspect of employment figures is the portrayal of trends from month to month and year to year on a consistent basis.

The first complete field canvass of households in the new sample took place in January. Some indications of the partial results through December were first discussed with other Government agencies at the end of January, but the preliminary results of the complete trial enumeration did not become available until the end of the first week in February.

Chairman WOLCOTT. Are there any further questions or discussion?

We are very grateful to the panel for being here and to those who have submitted statements but were unable to attend in person. Let me reiterate, if in reviewing your remarks you find it advisable to extend them in any respects, we will be very glad to have you do so.

Tomorrow we will continue the study of the President's economic message, and we will have a general appraisal of the economic outlook by Messrs. Edwin G. Nourse, Martin Gainsbrugh, and Alvin H. Hansen.

Without objection, the committee will stand in recess until tomorrow morning at 10 o'clock, when we will convene in this room.

(Whereupon, at 12:40 p. m., Wednesday, February 17, 1954, the committee recessed, to reconvene at 10 a. m., Thursday, February 18, 1954.)

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 18, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The joint committee met, pursuant to recess, at 10:15 a. m. in room 318, Senate Office Building, Representative Jesse P. Wolcott (chairman) presiding.

Present: Representative Wolcott (chairman), Senators Flanders, Carlson, Sparkman, and Fulbright; Representatives Talle, Patman, and Bolling.

Also present: Grover W. Ensley, staff director; John W. Lehman, clerk.

Chairman WOLCOTT. The committee will come to order. We are continuing the discussion of the President's economic message, and this morning, as a summary, we have with us three outstanding economists: Edwin G. Nourse, Martin Gainsbrugh, and Alvin H. Hansen.

Representative PATMAN. Mr. Chairman, may I propound a parliamentary inquiry?

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. In behalf of the Democratic members, I wanted to ask the chairman if he could give us an idea about our request to have the Open Market Committee before this committee.

Chairman WOLCOTT. As far as the chairman is concerned, he has not changed his mind with respect to it. He still has the same doubts that he has already expressed.

I shall put it this way: The question of open-market operations seems to me a little disproportionate for us to devote an entire day or 2 days to that question. We have to get this report out by March 1. We have to do a very quick job if we are going to do it. Personally, it is my ambition that in this respect we break precedent, or set a record. As far as I know, this committee has never gotten out its report by March 1 even though the statute requires it. I thought that possibly we might be able to establish precedent this year for future reports and get it out by March 1. We have made such good progress so far toward that end that I would be reluctant to suggest that we devote another 2 days to a subject which, as I said, has become disproportionate to the whole subject.

So, I would prefer that we wait until such time as we can take a little time with them. I might say to members of the committee that whatever loose ends there are which we will not be able to pick up in working on this report, we might as well continue with a subcommittee. If such a subcommittee thinks it is advisable or essential that we have the Open Market Committee before us, then they may do so.

We know also that the makeup of the Open Market Committee will change materially on March 1. I don't know whether we should have the present Open Market Committee down here only to have a new committee come in on March 1 or whether we should wait until March 1 to have the new committee.

Representative PATMAN. May I suggest that I am in accord with the chairman's views on getting out the report, and I shall not do anything to deter him in that respect. I know that I am speaking the wishes and will of the other Democratic members in saying that.

But at the same time, it is not necessary that we hear from the Open Market Committee before we get out the report. We shall have a reasonable time after we get out the report. I am not suggesting that it is necessary to have them to get out this report.

Chairman WOLCOTT. I might suggest, Mr. Patman, that a very short time after we get out this report, you and I are going to be busy with the Commodity Credit Corporation and the new housing bill. We have hearings on the Credit Corporation bill next Wednesday and immediately following that, hearings on the housing bill.

Representative PATMAN. I realize that, Mr. Chairman.

Chairman WOLCOTT. So, I wonder if you and I want to devote that much time to the Open Market Committee during the House committee hearings on commodity credit and housing.

Representative PATMAN. I think the Open Market Committee has much to do with the credit situation. In other words, the Congress has delegated to them important powers, and I do not believe it would be bad to have them appear at least once before a congressional committee that has never seen them to my knowledge.

Chairman WOLCOTT. May we leave it this way, that at the first opportunity when the committee thinks it advisable we will have the Open Market Committee down here.

Representative PATMAN. Does that mean within the next month or so, or something like that?

Chairman WOLCOTT. If we were to set up a subcommittee following these hearings to pick up what loose ends we have, then the subcommittee can have them before them.

Representative PATMAN. We do not want to withdraw our request. We still want to urge the chairman at the earliest opportunity to have the Open Market Committee before this committee.

Chairman WOLCOTT. Do you not think perhaps it might be better to await the new board?

Representative PATMAN. That new board, Mr. Chairman, is somewhat of a fiction. It is kind of one-third of a member each time.

Chairman WOLCOTT. Maybe it is an important one-third.

Gentlemen, we are very happy to have you here.

I think we may proceed as we have been proceeding that the panelists may proceed with statements without interruption, and then after the statements are in, we will probably want to ask questions. You may then discuss any of these problems with each other for your own benefit. We shall be glad to have you do it.

We have, first, Mr. Martin Gainsbrugh, the chief economist of the National Industrial Conference Board. We shall be glad to have you proceed.

STATEMENT OF MARTIN GAINSBRUGH, CHIEF ECONOMIST, NATIONAL INDUSTRIAL CONFERENCE BOARD, NEW YORK CITY, N. Y.

Mr. GAINSBRUGH. I have tried in my opening statement to reexamine the current business scene on the basis of the first 7 weeks of experience in 1954, and to synthesize therein the materials that were presented during the past 3 weeks, in addition to our own findings.

May I say, in addition, that I have found the hearings this year—this, I believe, is the fifth or sixth time I have participated in these hearings—to be the richest and most fertile of in any the past.

Turning directly to my statement, business trends to date in 1954 have thus far conformed largely to the expectations of business economists in their year-end forecasts—no better and perhaps a little worse. The general consensus was for further decline in economic activity in 1954. Such significant differences in viewpoint as existed within the fraternity were about the severity of decline and whether recovery would begin in the second half of 1954 or later. What has already happened to production in virtually every major mnufacturing industry since last summer warrants the technical label of "recession" which the economist has applied to it. That label within our fraternity tells us only that a significant contraction in business activity began early last summer; it throws no light on either its serevity or duration. But were recovery to begin tomorrow, that label would still be applied to what has happened since mid-1953.

Let me offer this further side comment, too, since so much discount is generally applied to the skill or ability of business economists to appraise future trends. Their early and accurate warnings about the imminence of business downturn which began nearly a year ago undoubtedly made a salutary contribution toward orderly readjustment subsequently. Unlike some past recessions, the adjustment has thus far proceeded on an orderly basis with little panic in major markets. We have had no sharp or violent breaks in prices of goods and services, either at retail or wholesale levels, reflecting at least in part the absence of speculative excesses.

To repeat, business confidence has not been shaken, despite the increasing evidence that business analysts were correct in directing the attention of management to the prospect of a forthcoming downward readjustment.

In their apraisals of imminent downturn, those in the economic watchtowers of business were careful for the most part to also direct attention to the elements of strength in the current scene: The strong savings and improved net-worth position of both consumers and business; and I put that No. 1 in my books as an element of strength; to the continuing pressures of population, short-run as well as long-term, upon the market place; to the increased base of technological research; and finally to the widespread acceptance throughout all industry of this Nation's future growth potential. The importance of this point is well emphasized in the following observation:

> Major upswings are periods of rising or high-level activity during which, even if there is a setback to business expectations, long-term investment opportunities continue favorable and therefore the self-correcting factors inherent

in a short recession are sufficient to bring about a new recovery in fairly short order. This was the situation, for example, in the mild recession in 1949, the minor declines of 1924 and 1927, and also in the sharper (but also short) recession of 1937–38. In all these cases underlying, long-term investment opportunities remained favorable.

In major downswings, on the other hand, long-term investment opportunities become seriously impaired; and hence, a downswing, once it develops, is likely to be long and severe.* * *

Business cycles exist because a private-enterprise economy expands and contracts through a cumulative process which eventually breeds a movement in the opposite direction. In minor cycles the self-reversing, cumulative process operates primarily through the short-period purchasing plans of consumers. Short-period plans and expectations determine the course of the minor cycle. Major cycles, on the other hand, result from the long-term investment planning of business and consumers.

If the recession is only a minor one, investment and therefore consumption will be fairly well maintained; the general decline in confidence will be moderate; the desire for liquidity will be satisfied relatively easily; and investors will not withhold their funds from the capital markets for very long. In this case, the maladjustments that have to be corrected are not serious, and a sharp curtailment of output for a year or less (or a slower decline for a somewhat longer period) may be sufficient to induce recovery.[1]

Through the perspective provided by their balanced presentation of the elements of strength and weakness, the marketing and economic fraternities have apparently succeeded in sheltering investment decisions from violent contraction due solely to overconcentration upon short-run disturbances. The longer-range needs for additional capacity implied in these appraisals have had their effect in current investment decisions. Witness in this connection the announcement by General Motors of its huge expansion program for the years ahead, as well as the gratifyingly high levels of industrial and commercial construction over the past 9 months. In fact, in January, despite industry's awareness of the slump, new construction was again at an all-time level.

By being objective and realistic in his appraisal, even though his findings were subject to misinterpretation, the economist has contributed substantially toward recovery. Unlike 1929 he has not worked against recovery through instilling a false sense of confidence that business activity would remain unchanged at its immediate post-Korean peak. Instead, he has tried to limit and reverse the recession by explaining its origin and probable course.

I turn next to what the business thermometers show in mid-February 1954. I am not trying to paint out what the thermometers show. I am reporting what they actually show.

With each added week of experience in 1954, we gain further insight into the depth of correction which has already taken place. The temperature of business as revealed by one of our highly sensitive business thermometers, the index of industrial production, has cooled off considerably from its white heat last summer. But it is still a normal temperature reading for a highly active economy.

This measure of the physical outpouring of this Nation's factories and mines has continued to move down unbrokenly since mid-1953. It is already nearly 10 percent below its midyear peak and may be off even more when the February figures are unveiled. That index, therefore, has already experienced as much contraction as in the 1949–50 recession, and in a shorter period of time. It took from

[1] R. A. Gordon, Business Fluctuations (1952), pp. 266–267, 298.

October 1948 to July 1949 for the index to complete its 10 percent correction at that time. Comparisons with a year ago may become even less favorable when matched against the substantial upturn in business activity of the second quarter of 1953.

Equally, if not more sobering, is the internal change in direction of the major components of manufacturing and mining activity. There are some 25 major industrial groups whose physical production is brought together to form the aggregate measure of industrial production. Not a single industrial group was higher at the year end than at midsummer. Even such typical growth industries as chemicals and petroleum were several percentage points below their summer highs. In that connection, I have submitted a table showing the changes in industrial production. These figures are seasonally corrected; the seasonal element has been eliminated.

(The table referred to follows:)

Changes in industrial production, 1953—Seasonally adjusted, index numbers, 1947–49 average=100

	1953 peak		December 1953 (preliminary)	Percent change from 1953 peak
	Month	Index		
Industrial production	July	137	127	−7.3
Durable manufactures	do	157	143	−8.9
Preimary metals	May	139	114	−18.0
Fabricated metal products	December	142	130	−8.5
Nonelectrical machinery	April	147	133	−9.5
Electrical machinery	August	203	174	−14.3
Transportation equipment	July	196	181	−7.7
Instruments and related products	June	157	155	−1.3
Stone, clay, and glass	August	135	133	−1.5
Lumber and products	February	124	[1] 115	−7.3
Furniture and fixtures	April	124	108	−12.9
Miscellaneous manufactures	June	145	139	−4.1
Nondurable manufactures	May	123	114	−7.3
Textile mill products	do	113	92	−18.6
Apparel and allied products	do	117	102	−12.8
Rubber products	do	139	[1] 117	−15.8
Leather and products	do	108	[1] 91	−15.7
Paper and allied products	September	135	128	−5.2
Printing and publishing	October	123	119	−3.3
Chemicals and allied products	July	152	147	−3.3
Petroleum and coal products	August	132	128	−3.0
Food and beverage manufactures	May	109	105	−3.7
Tobacco manufactures	February	120	[1] 108	−10.0
Minerals	July	120	111	−7.5

[1] Estimated.

Source: Federal Reserve.

Mr. GAINSBRUGH. Losses were almost as marked in the output of soft goods as in durable manufactures. Among the latter, textile, apparel, rubber, leather, and tobacco have all declined 10 percent or more from their 1953 peaks, as has the production of iron and steel and other primary metals, electrical machinery, and furniture.

Now, to bring the record up to date, I have brought with me our last desk sheet. This is the conference board's own collection of sensitive business indicators as they stand in mid-February, and they throw even more light on declines which are currently evident in our major industries.

(The document referred to follows:)

NATIONAL INDUSTRIAL CONFERENCE BOARD

NEW YORK, N. Y.

WEEKLY DESK SHEET OF CURRENT BUSINESS INDICATIONS, FERBUARY 11, 1954

Employment in nonfarm industries declined more than seasonally from December to January. But the decline was moderate and was concentrated largely in factory employment.

The BLS figures released this week, showing a decline of 2 million in nonfarm employment in January, do not take into account the pronounced seasonal drop that usually occurs in the first month of the year. In wholesale and retail trade, the decline of 900,000 jobs from December to January (resulting from the release of temporary Christmas help) was actually less than the anticipated seasonal contraction. Similarly, the decline of 271,000 in Government employment (resulting principally from release of Christmas postal workers) was smaller than seasonal factors alone would account for. Over half of the 268,000 decline in contract construction, and about half of the 100,000 drop in transportation and public utilities, can be regarded as seasonal reductions. In judging the significance of the total 2 million decline, it should be noted that in booming January 1953 the BLS employment figure fell 1.7 million. In fact, if manufacturing industries are excluded, nonfarm employment in January 1954 was above a year ago, and the highest January level on record.

The 380,000 drop in manufacturing employment, on the other hand, was more than twice as sharp as the normal seasonal decline, and somewhat sharper than the (seasonally adjusted) declines of the last half of 1953. As in earlier months, the bulk of the decline in the manufacturing sector was in factory jobs, notably but not exclusively among durables industries. Average hours worked by factory employees fell from 40.1 hours in December to 39.4 hours in January, but this is no more than the usual seasonal contraction.

The business scoreboard

Industrial production (1947–49=100; seasonally adjusted):

December 1953	[1] 127
November 1953	129
December 1952	133

	Week ended		Prior week	Year ago	Percent change year ago
Business loans (million dollars)[2]	Feb. 3	22,638	22,502	22,952	−1.4
Steel production (thousand net tons)	Feb. 8[3]	1,764	[4] 1,774	2,248	−21.5
Heavy construction (thousand dollars)[5]	Feb. 11[6]	183,946	183,687	346,321	[7] −46.9
Automotive production [8]	Feb. 6	127,319	[4] 133,095	137,732	−7.6
Electric power output (1947–49=100)[9]	Feb. 6	158.6	161.3	148.6	+6.7
Bituminous coal output (thousand tons)	Feb. 6	(10)	8,385	8,570	(10)
Petroleum output (thousand barrels)[11]	Feb. 6	6,172	6,159	6,427	−4.0
Lumber production (thousand board feet)[12]	Jan. 30	197,145	209,888	248,030	−20.5
Paper production rate (percent of capacity)	Feb. 6	(10)	95.4	94.8	(10)
Paperboard production (tons)	Feb. 6	228,571	240,413	238,012	−4.0
Carloadings, total	Feb. 6	(10)	628,190	690,744	(10)
Carloadings, miscellaneous	Feb. 6	(10)	329,637	371,485	(10)
Sales, department store (1947–49=100)	Feb. 6	(10)	86	88	(10)
Prices, weekly wholesale (1947–49=100)[13]	Feb. 9	(10)	110.6	109.6	(10)
Prices, daily spot (1947–49=100)[13]	Feb. 9[3]	88.4	88.0	87.5	+1.0
Stock prices (1926=100)[14]	Feb. 10	207.6	208.1	203.5	+2.0
Defense expenditures (million dollars)[15]	Feb. 5[6]	908	890	947	−4.1
Budget surplus or deficit (million dollars)	Feb. 5[3]	−9,083	−9,661	−9,774	----------

[1] Preliminary

[2] Weekly reporting member banks.

[3] Steel production scheduled for week starting date indicated; daily spot commodity and stock prices as of dates indicated; budget surplus or deficit is cumulative from July 1.

[4] Revised.

[5] Contract awards, Engineering News-Record.

[6] 4 weeks' average.

[7] Percentage change affected by atomic energy awards in January 1953.

[8] Ward's Reports, United States.

[9] Edison Electric Institute; seasonally adjusted.

[10] Not available owing to holiday.

[11] Daily average.

[12] Based on sample; indicative of trend only.

[13] BLS; for weekly wholesale prices, year-ago figure is for the comparable month.

[14] Standard & Poor's.

[15] Federal budget expenditures for Defense Department, Atomic Energy Commission, Mutual Security maritime activities, Coast Guard, defense production.

Mr. GAINSBRUGH. Steel production is off by fully 20 percent from what it was a year ago; carloadings, by over 10 percent; petroleum by 4 percent; coal, by about 9 percent. In a growing number of instances the current figures are not only below where they were a year ago, but also below their early 1952 levels.

The direction of change in the internal composition of this index casts doubt on the still-popular thesis in some quarters that what we are experiencing currently is nothing more than a rolling readjustment—in other words, a continuation of the benign type of readjustment that characterized business dislocations earlier, in 1951–52.

Now, I have a parental interest in the phrase "rolling readjustment." We at the conference board did as much as any other group of business analysts to coin this description and to suggest its applicability to the business pattern of these years.

We felt this phrase aptly described the series downward adjustments in one or more major sectors of American industry that were more or less canceled out by upward adjustments in other groups. Under this definition a change of several billion dollars either up or down in the total output of the economy could take place and still not imply a dramatic or historic change in business conditions. Technically, we differentiated a rolling readjustment from recession in that cumulative forces usually accompany changes in the business cycle are conspicuously absent in a rolling adjustment; neither the plus nor minus signs predominate; instead, they largely cancel out.

What is disconcerting about the internal compostion of changes in the index of industrial production since mid-1953 is that the change has not been confined to one or two major industries. Instead, it has spread throughout virtually every cell of the manufacturing and mining structure.

Certainly the evidence I have described does not reveal any dispersion in direction or offsetting plus and minus signs within the manufacturing and mining sector—and that in and of itself covers about a third of the Nation's total economic activity. The same pattern will emerge later in my comments on what has been happening to employment not only in but outside manufacturing as well. It would seem unwarranted, therefore, to view the current adjustment as a contribution of the mild and offsetting type of contraction implied by the label "rolling readjustment." Instead, the weight of evidence and of professional opinion suggests that we have passed well beyond a rolling readjustment to the next cyclical stage of recession, namely, an inventory recession. We are already well in that stage. Whether this is more than an inventory recession now remains to be tested in the months immediately ahead. If we are in an inventory recession, the self-correcting processes which have in the past turned such contractions upward should become evident shortly—certainly before summer, as I shall stress in my closing remarks.

Let me turn next to employment and unemployment. I am sorry. I have not been able to work in the latest correction in these figures. That accounts for my not being able to mimeograph my testimony. Each day, apparently, a new crop of figures and revisions are released. The day before yesterday it was employment and unemployment. Yesterday it was the gross national product and the inventory correction. I do not know what today's crop will be.

Further confirmation, if required, of the extent to which this contraction has passed beyond the rolling readjustment stage is clearly apparent in both the number at work and the number without jobs. And this is a matter of record. I think you can rely on these figures. You have to be on someone's payroll to be picked up in this series.

Nonfarm employment has declined unbrokenly since last July. It was 650,000 lower in January 1954 than in January 1953, and is roughly 1¼ million lower than it was at its peak last July—and here we have done something the Bureau does not do—even after allowance for the fact that employment reaches its seasonal low at this time of year. We have corrected for the seasonal low.

(The table referred to follows:)

Employment in nonagricultural industries, employment figures in thousands; seasonally adjusted

Industry	1953 peak		January 1954	
	Month	Employment (thousands)	Employment (thousands)	Percent change
Total	July	49,511	48,366	−2.3
Manufacturing	June	17,319	16,177	−6.6
Mining	January	[1] 872	799	−8.4
Contract construction	October	2,617	2,475	−5.4
Transportation and public utilities	do	4,319	4,180	−3.2
Trade	do	10,558	10,579	.2
Finance	November	2,077	2,069	−.4
Service	October	5,336	5,320	−.3
Government	do	6,736	6,767	.5

[1] Declining progressively since 1948.

Source: U. S. Bureau of Labor Statistics; The Conference Board.

Mr. GAINSBRUGH. Even so, the record is far better than in the 1949–50 recession. The cutback in production this time has been achieved more through a return to a normal workweek and voluntary retirement from the labor force, and less through layoffs, than was the case in 1949–50. We had as much correction in the index as in 1949–50 with a far better employment record.

Unemployment has been mounting steadily, but it is at least 1.5 million lower than at the trough of the 1949 recession, with a larger labor force. In fact, the current levels of unemployment are just about what we were willing to accept prior to Korea as "frictional" unemployment. Stated another way, what unemployment we have today is barely above what we several years ago regarded as the prevailing labor float under condition of full employment in peacetime, as distinct from hyperfull employment prevailing under war-defense emergencies. Nearly 5 percent of our total labor force is unemployed currently, as compared with an unemployment rate of 7.5 percent at the trough of the last recession in February 1950.

As in the case of production, the direction of change in the composition of total employment is also highly important in a determination of where we stand currently. Let us look at the internal composition as well as the overall total. I have a table attached to my record which shows the changes internally. Employment has fallen most in manufacturing and mining. But there has been no significant increase in any other major group. With the exception of trade and Government—and here the increases are nominal. Every major industry now has fewer workers on its payrolls than it had at its peak earlier in 1953, even after seasonal adjustment. In no case have the declines been as marked as in manufacturing and mining. However, there is no evidence of any significant offset, even in such growth areas as the finance and service trades. True, in these instances the declines have been nominal. But if further support were needed that the label of "rolling readjustment" is no longer warranted, it is again found in the overall contraction and lack of offset in employment. This would be further reinforced were the comparison drawn in terms of man-hours of work, since overtime has been largely eliminated over the past year.

I could, if time permitted, submit additional evidence of the pervasiveness of this recession and of its continuing growth and amplitude. Thus, new orders which began to decline as early as last June are still not rising. As a result, backlogs in manufacturing were reduced by nearly $20 billion in 1953 and are at a lower ratio to sales than at any time since early 1951. The agricultural sector of our economy has likewise undergone a marked contraction in price and income. This in turn has cut the demand for not only farm machinery, but also has led to lower retail sales in rural areas. And there is a lesson to be learned from this. The lesson to be learned there is that a strong balance-sheet position can keep consumption high for quite a few months—but the grace period does expire.

I turn next to a review of those elements of strength which promise upturn and recovery. Outstanding in this connection is the unbroken and continuing strength of end-product demand. Production of goods has been cut by nearly 10 percent within less than a year. Such cutbacks have not been confined solely to durable goods, but are almost as pronounced for soft goods and minerals. Meanwhile, household consumers, private business, and Federal, State, and local units of Government continue to take goods and services off the market place at virtually the same rate as at the peak of the cycle last spring. Sustained consumption, accompanied by cutbacks in output of the dimensions I have described, provide the basic mechanism for correction of excessive inventories and for the automatic recovery that some of my colleagues are anticipating within the months, if not weeks, immediately ahead.

Despite the drop in employment and loss of overtime, the Nation's consumers took as much off the market place in the fourth quarter of 1953 ($230 billion) as they did in the peak second quarter ($230.4 billion). And department store sales thus far in 1954 continue to compare very favorably with the corresponding volume in the opening weeks of 1953. In fact, total retail trade in January was as high as a year ago, except for the loss in automobile sales. Purchases of hard goods, particularly automobiles, declined somewhat in the second half, and again in 1954. That was not surprising. What was, was that consumer expenditures for soft goods also fell off, especially for apparel. Over the same period, however, consumers actually spent more for housing, recreation, travel, and other services, so that the total of their expenditures remained constant. While service outlays do not help to liquidate inventories of goods, they help to support incomes in service industries and elsewhere.

The surprising strength of the consumer sector warrants a bit more comment. The high level of consumption in the fourth quarter apparently was not maintained at the expense of savings, according to estimates contained in the Council's report. Personal savings in that quarter were running at an annual rate of over $19 billion, actually somewhat above the corresponding rate of savings in the first half of 1953. This was equivalent to about 7.7 percent of personal income after taxes. In 1929 and 1940—years of high-level activity—the corresponding rate was somewhat below 5 percent. Also in point is the strength of consumer demand, as revealed by surveys of consumer expectations to purchase in the months ahead, as Mr. Lickert told you. Consumers apparently believe that there are good values to be had in the market place at existing price levels. They are not withholding purchases in anticipation of bargain-basement prices.

To go on, business and Government demand likewise remain high.

Private business, too, has continued to take end products off the market at virtually the same rate as the peak of the cycle. Industrial expenditures for new plant and for other forms of commercial equipment have declined only nominally. In fact, it is anticipated that business expenditures for new plant and equipment in the first quarter of this year will continue to hold close to peak levels.

End-product demand by all forms of government has likewise remained at a record high, despite the decline in defense expenditures following the Korean armistice. This decline has been more than offset by further increases in the demand for goods and services by State and local units of government, as well as greater Federal outlays for civilian purposes, including support of agricultural prices.

In summary, therefore, the total of end-product demand for consumers, business, and Government was just as high at the year end ($367.5 billion) as at mid-year ($367.6 billion). The economic arithmetic of what has been occurring can be expressed as sustained end-product demand, accompanied by a substantial decline in physical output, yields an inventory vacuum. It is argued that we will shortly reduce excessive inventories to the point where an inventory vacuum is created and that in turn could yield an upturn in new orders and some degree of recovery, if not expansion.

This then is the background for the increasingly accepted view of economists in the Government, as well as of most business analysts, that we are now in an inventory recession. In almost all industries that inventory recession is proceeding in an orderly way, and is now accomplishing its purpose of inventory adjustment at a relatively rapid rate. In the fourth quarter of 1953, the book value of business inventories declined by $1 billion—this was before the latest revision—I do not know what it will now be—with about 80 percent of the decline in durables lines. Apparently more than half of this change in book value reflected an absolute decline in the physical volume of stocks. This suggests a decline in physical stocks at an annual rate of over $2 billion. I think the revised figure is $3 billion.

In the first quarter of 1954, what scattered evidence is available suggests at least as high a rate of liquidation as in the preceding quarter.

It is true, of course, that in the fourth quarter and perhaps even in January, sales rates in manufacturing declined more rapidly than inventories themselves, so that inventory-sales ratios were rising. This bothers some of my friends in business. But this rise is characteristic of an inventory adjustment, and should not be treated as a new ground for concern. Sales figures, being a rate, can move more sharply than inventory figures, which are a stock.

With the exception of one major industry, there are even some encouraging signs that inventory liquidation, while it is certainly not yet over, has reached about its peak rate. Ordering in durables industries, after declining violently from June to October, has since moved sideways. Steel production itself has run at 1.8 million tons a week in every week of 1954. Inventories of soft goods, after declining betwen September and November, stabilized in December, and new orders in these industries have evidently firmed somewhat.

However, the exception is important. One exception to this orderly course of inventory liquidation appears now to be the automobile industry. During the fourth quarter, the book value of automotive inventories actually declined slightly, but the decline reflected a break in price. The physical volume of stocks in the industry—particularly of new and used cars at the retail level—remains exceptionally heavy. The figures in January reflected that the stocks of new cars were at an all-time high. The industry's first-quarter production targets have accordingly been lowered. The sharp revision of these targets in the past 6 weeks suggest that here, too, liquidation on a substantial scale will be undertaken. Should that industry, too, enter on liquidation, it seems likely that the phrase "inventory recession" will continue to be a good description of business conditions in the first half of 1954.

Summarizing the inventory situation of mid-February, inventory liquidation is now proceeding at a rapid and healthy pace throughout most industries. In a few areas it may be nearing completion, while in one major industry it seems to be just beginning. The net rate of liquidation of total stocks may thus be running at or near its peak. Thus far, there is little indication that the side effects of inventory liquidation are significantly contracting the final demands of consumers and business.

Then to my conclusion. How warranted, finally, is the conclusion that recovery will come soon, and atuomatically, as a result of inventory correction? A group of analysts, including our own Economic Forum, contend that apart from any question of inventory the business outlook for the last half of 1954 is not necessarily serene. May I submit in that connection a copy of our Business Outlook for 1954, as well as our latest survey of business opinion, The Next Six Months Will Be Lower.[1] Our Economic Forum questions, for example, whether, in the Government sector, State and local expenditures will rise rapidly enough to offset the expected sizable decline in the rate of Federal expenditures for defense. They question, too, whether, with the disappearance of abnormal incentives and postwar backlogs, business expansion can be expected to maintain its recent rates. And lastly, they question whether an expansion of consumer outlays for soft goods and services, even if it should occur, will be sufficient to offset a decline in hard goods purchases.

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[1] National Industrial Conference Board, Studies in Business Economics, No. 42. The Business Outlook, 1954, and the Board's survey of business opinion are available in the committee files.

Even with a successful conclusion of inventory liquidation, therefore, we may not automatically get expansion of markets for both capital and consumer goods in 1954. By this I mean to convey emphatically not gloom, but rather to prevent it, should recovery be somewhat halting, as it emerges. Inventory adjustment alone will not solve all of the problems inherited from the postwar boom. But inventory adjustment coupled with tax relief, tax reform, an easier credit policy, and finally and most importantly the increasingly better values being offered as business competes even more vigorously for consumer dollars, are apparently laying the groundwork for recovery, if not expansion, in 1954.

Let me conclude with this cautiously optimistic note. The National Bureau's group of eight leading economic series, which forecast the 1953 inventory recession with near unanimity no longer point unanimously to a further decline. At least 4 of the 8 series—new orders in durables, securities prices, manufacturing building contract awards, and residential building contract awards—now point sideward, if not up.

In addition, as of now, there is no substantial evidence that the recession which began in inventory demand has escaped in force beyond inventory. There are, however, some reasons for expecting it to do so. We won't have long to wait before we know the true designation for this recession. If the recession remains largely confined to inventory in the next 3 months, and if the general price level remains reasonably stable—and I believe it will—the economic fraternity will grow increasingly optimistic about late 1954. Conversely, should end-product demand begin to contract, and prices enter on a cumulative decline, I believe economists would postpone the prospect of recovery to early 1955 or beyond.

Chairman WOLCOTT. Thank you, Mr. Gainsbrugh.

We next have Alvin H. Hansen of Harvard University.

Mr. Hansen, we are very glad to have you proceed.

STATEMENT OF ALVIN H. HANSEN, LITTAUER PROFESSOR OF POLITICAL ECONOMY, HARVARD UNIVERSITY

Mr. HANSEN. Mr. Chairman, I have here a short summary of my longer statement which I think has been distributed. I shall read this shorter statement in order to save time.

The Economic Report, I am happy to note, opens with an excellent statement of modern anticyclical policy, and there is very much in the report with which I heartily agree. The report itself devotes a good deal of attention to the problem of preventing a spiraling depression in 1954.

Forecasting, as the report itself says, is a very hazardous occupation, and I am not going to make any forecast here today. I am prepared to accept as plausible the opinion widely held that 1954 may see a drop in GNP of around 5 percent, that is, a decline from $367 billion, GNP, to $350 billion.

Budget expenditures in fiscal 1954 will run, it is estimated, at $71 billion. With this massive, rock-bottom expenditure by the Federal Government, an expenditure unaffected by cyclical factors, it is, I think, plausible to hope that a cumulative spiraling collapse is unlikely.

This, then, we may agree, is not our main problem, at least for 1954. The first real sharp cut in Federal expenditures will come in 1955.

Our attention needs, therefore, it seems to me, to be given to the longer-run problem which confronts us, that of maintaining the gross, expansion and minimum of the last 4 years.

In these last 4 years we listed the level of output of goods and services measured in constant dollars by $73 billion, or an average increase of $18 billion per year. Now, that was a spectacular achievement for which there are few parallels. It was achieved, as everyone knows, under the stimulus of massive fiscal operations of the Federal Government. Yet the public debt rose by only $18 billion. Taxes were, indeed, raised. But the disposable income of individuals—that is, income after taxes—rose in this interval in terms of real purchasing power to a level of $36 billion above that of 1949. The liquid accumulated savings of individuals increased by $41 billion. We added over 4.7 million new units to our stock of urban houses. Employment rose by over 3 million. And the total investment in new producers' plant and equipment reached in these years the impressive aggregate of $140 billion. Agriculture is included here.

Over and above the rapidly expanding military production, the output of civilian peacetime goods reached unprecedented levels.

Now, our real problem, I repeat, is, Can we maintain this gross, this momentum? Or are we going to move on a flat plateau with the danger that this leveling-off process may some years hence engender a spiraling depression?

This, I take it, is the real problem before us.

The Employment Act of 1946 sets out the goal of maximum employment, production, and purchasing power. Indeed, this act specifically says that the Economic Report shall set forth the levels of employment, production, and purchasing power needed to carry out the policy goals as declared in section 2 of the act. These levels are, however, as far as I can discover, nowhere set out in the Economic Report.

It could perhaps be argued that the immediate problem is one of immediate readjustment. But I should like to stress the point that the expansion of the last 4 years was a solid growth which left the economy strong, in sound financial condition, and in good balance. There is very much evidence in the Economic Report itself that this is the case. Apart from the usual inventory fluctuation, we entered the year 1954 as free from distortions and maladjustments as at any time in our history. No purging process or readjustment is necessary.

We have had 3 years of price stability. The panic buying spree induced by the Korean crisis had already subsided by February 1951, just 3 years ago. Wholesale prices have fallen moderately for 3 years. They stood, at the end of 1953, 4.1 percent below the 1951 average. Consumer prices stood 3.5 percent above the 1951 average. Wholesale prices were slightly down, consumer prices slightly up, due largely to the delayed rent increases.

It would be difficult to find any period in our history where so high a degree of price stability combined with so large a gross in output as the 3 years 1951, 1952, and 1953. And, in these 3 years of price stability, unemployment averaged only 2.7 percent. Most economists formerly believed that this was just not possible.

With this general condition of balance, we ought to be able to move forward to our potential of maximum employment, production, and purchasing power. Increases in productivity and labor force suggest an advance of not less than $3\frac{1}{2}$ percent per annum. Indeed, some economists, impressed by modern technological research, would put the figure at 4 percent. But no one would challenge, I believe, the feasibility of the $3\frac{1}{2}$-percent rate of gross as the annual gross, or an annual gross of gross national product of nearly $15 billion.

For the year 1954 our gross national product therefore ought to be about $380 billion, and for 1955 around $395 billion. In 1960 it should reach about $475 billion or possibly, if one takes a 4-percent rate of gross, even $500 billion.

Now, I know it will not be easy to reach this goal, and I suggest that it takes a good deal more than is envisaged in the Economic Report. At best, we shall certainly not reach our goals each single year. That is just not possible. For 1954 it is already too late. But we could make a substantial recovery even now and then move on to our full potential in 1955.

Now, this is what I miss in the Economic Report. Throughout the report one finds, I think it is fair to say, a considerable toning down of the mandate laid down by the Congress with respect to maximum employment, production, and purchasing power. The report does indeed speak here and there of gross in the expanding level of output, but this means very little unless realizable targets are spelled out in greater detail.

In my long statement I give an illustrative table which shows substantial growth, and yet the cumulative total in the 7 years from now through 1960 on this table would be $330 billion less than would be reached if we maintained a straight $3\frac{1}{2}$ percent of growth throughout that period—$330 billion less—and yet that table shows some considerable growth. It is purely an illustrative table.

The administration program confronts with an announced schedule of retrenchment in Federal military expenditures. Consumption expenditures and capital outlays must therefore increase sharply unless, indeed, the reduced military expenditures are offset in part by increase in public works and other peacetime outlays designed to raise the standard of living.

We are confronted with two problems. One is to offset the decline in military expenditures, and the other is to get that needed expansion of $15 billion per year.

Now, let us take a look at the prospect viewed in terms of the Economic Report. Consider, first, outlays on plant and equipment. No one has suggested, I believe, that we can expect outlays on plant and equipment to rise appreciably above the extraordinary high current level of $38 billion if one includes agriculture—$33 billion without agriculture—especially after we have had 8 years of modernization and expansion involving an aggregate outlay of nearly $240 billion in that 8-year period.

I am quite aware that proposals have been made to stimulate such outlays. I myself am heartily in favor of accelerated depreciation. But I should like to see it used as an anticyclical device. In the form proposed by the administration, it would, I believe, intensify industrial fluctuations.

I would, therefore, wish to limit the coverage to recession years or years below the trend average. I have more to say about this in my longer statement but I will not go into it here.

Consider next the proposed relief of so-called double taxation. I very much question that it would have any noticeable effect on investment in plant and equipment. I question the argument that current tax laws are responsible for the low rates of 25 percent of stock issues to total issues. I would call attention to the fact that this same ratio obtained in 1922 to 1927, when both corporate and individual taxes on stockholders were very low.

In order to achieve our gross potential of about $15 billion per year and to offset the decline in military expenditures, outlays on plant and equipment must certainly play an important role. But they can scarcely be expected to contribute much more to the gross national product than the very high levels reached in recent years. The really large offsetting increases must be found elsewhere.

One obviously important area is residential construction. Last year we built 1,100,000 new units. The Economic Report suggests no target beyond this level, and there is no evidence that it looks forward to any larger program in the visible future. On this basis, then, we can look for no help here to offset Federal retrenchment.

In passing, it may be noted that the housing proposals contained in the report fall far below the program of the Housing Act of 1949. Yet the report calls attention to the fact that reduced military outlays may now make it possible " to turn the productive potentialities of the economy increasingly to peaceful purposes."

In line with this statement, I suggest that we could now well plan the construction of 1,500,000 new housing units a year for the next 10 years.

Another area for expansion is public construction: Schools, hospitals, streets and roads, water facilities and sewage and industrial waste disposal systems, and so on. The Economic Report gives us an excellent survey of our urgent accumulative shortages and needs in these areas. I wonder how many of you have added up the figures that are presented in the President's report. They are very impressive. They show that we urgently need, over and above the current levels of expenditure, additional outlays per annum of $10 billion for a period up to 10 years. This means a doubling of the current volume of nonmilitary public construction. That does not include the additional needs in the Federal public-works area. This mean a doubling of the current volume of nonmilitary public construction. That means a $20 billion public construction program instead of the current $10 billion one, and one still higher if the Federal public works indicated in the report were included, which I have not done here in that figure.

Now, the economic report sets out very vividly the urgent needs and the magnitudes involved. But the conclusion reached, I regret to say, is very disappointing indeed. The conclusion is that while the Federal Government can aid some, the problem is mainly one for State and local governments. Currently the total volume of public construction, nonmilitary, is $10 billion, Federal, State, and local combined, of which two-thirds is State and local.

Now, State and local governments cannot increase their current outlays on public works from $7 billion to $17 billion per annum.

Everybody knows this. We shall not in fact make good on the urgent needs so eloquently referred to in the President's report unless the Federal Government makes financial provision, in some form or another, for two-thirds of the total.

No other program is realistic. And as military expenditures decline, it is only commonsense to increase Federal grants in aid on these urgently needed public-improvement projects. Neither in this area of private investment nor even of private consumption, are there deficiencies, I feel, anything like so serious as the current deficiencies in schools, hospitals, and the other public-works areas covered in the economic report.

We can, however, and should increase private consumption. This is certainly important, although I feel not as important as the needs for schools, hospitals, and so forth. I suspect that priority might well be given to our urgent community needs. But our productive resources, although certainly not limited, are nonetheless adequate in view of the reduced military expenditure and the continued increases in productivity and labor force to permit some progress on all fronts, plant and equipment, housing, public construction, and also private construction.

With respect to consumption, the administration's tax proposals suggest a fairly drastic shift toward a more regressive tax structure. I venture to say that these proposals will tend to reverse the trend over the last two decades toward a more equitable distribution of income. We had recently a notable report by the National Bureau of Economic Research on this subject. This report, and its favorable conclusion, was widely acclaimed as a sign that our economy is healthy and strong. But now it is planned, I fear, to reverse this development.

Consider the proposed relief from so-called double taxation of stockholders. How many people are aware, I wonder, that under this proposal a married man with $12,000 income exclusively from dividends would pay no Federal income tax at all?

I want to repeat that. How many people are aware, I wonder, that under this proposal a married man with $12,000 income exclusively from dividends would pay no Federal income tax at all?

Or take the proposal which has been suggested, though not in this report, to cut current excises to a 10 percent rate and make up the loss in revenues by spreading the excise tax over a wide range of commodities. This amounts, in effect, to a manufacturer's sales tax. And this is not suggested in the economic report. These are not, I suggest, proposals that will help to stimulate consumption.

In conclusion, I have 2 or 3 final comments which underscore the main point I am trying to make. The report declares the "determination of the Federal Government to employ all its powers to prevent severe slumps in the future."

Now, this is indeed a great forward step, this declaration, and I welcome it. Until recently, such a declaration was regarded by many as dangerous and illusory. But I miss an equally strong and reassuring statement that the Government will employ all of its powers to promote, in the words of the Employment Act, maximum employment, production, and purchasing power. Yet this is the policy declaration of the Congress in the Employment Act.

The report is, I feel, not adequate with respect to the major problem that confronts us, namely, can we maintain the growth, expansion, and momentum of the past few years?

I am well aware that many conscientious and thoughtful citizens are sincerely afraid that a program of adequate expansion will lead to inflation. One answer to that fear is, in fact, well expressed in the economic report itself, where it wisely counsels that the Government must be prepared to reverse itself if it finds it has gone too far.

A second answer is that fear of inflation in a country like the United States, under peacetime conditions, is grossly exaggerated. Until recently, economist generally doubted that we could maintain price stability without at least 6 to 7 percent unemployment. We have learned in recent years that this is not the case.

I might here mention that since 1948—and this includes the panic following Korea—since 1948, down to the end of 1953, wholesale prices rose only 5.5 percent in that 6-year period. That is to say, 1 percent per annum. And I call your attention to the fact that in the 15 years before World War I, those good, peaceful days, wholesale prices rose 3 percent per annum in that 15-year period, so that from 1948 to the present, even including that panic-buying period of Korea, we have had much higher price stability than we had in the 15-year period prior to World War I.

The second perennial fear is the fear of public debt. This is a subject about which there is an immense amount of double talk. Only in the financial press—and I repeat that—only in the financial press does one get a rational appraisal of what the debt really means in terms of financial security. One reads almost daily in the financial press how the widespread ownership of United States securities by banks, by savings institutions, by business and by small savers, is one of the leading elements of strength in our economy. The economic report itself, I am glad to note, has much to say on this matter. And as our GNP rises toward the $500 billion level in 1960, as it should and can, it may well rise more or less in proportion should this turn out to be necessary to promote expansion.

It is the ratio of debt to GNP that is important, and not the level of debt. The economic report recognizes that a stabilizing fiscal policy demands sufficient leeway within which to operate.

I quote from the report as follows:

The Government must and will be ready to deal with any contingencies that may arise. An essential part of this preparedness under present conditions is a higher Federal debt limit.

That is a straightforward statement which we can all respect. I suggest that in an expanding economy, the debt limit ought not to be fixed at an absolute level, but rather as a ratio to GNP. This would provide continuous room for maneuvering the fiscal policy dedicated to stability, expansion, and growth.

Chairman Wolcott. Thank you, Mr. Hansen.

(The prepared statement of Mr. Hansen follows:)

Statement of Alvin H. Hansen, Professor of Political Economy, Harvard University

Let me first say that I am happy to note that the economic report presents an excellent statement of antidepression policy. More specifically, the importance of the role of fiscal policy is stressed and I welcome this note.

Much of the report deals with well-known methods and devices designed to mitigate economic fluctuations, including the very important automatic stabilizers which have, during the past 20 years, been built into the economy. And I was particularly pleased to find that the report does not rest its case on the automatic stabilizers alone.

The report devotes a good deal of attention to the problem of preventing a spiraling depression in 1954. Forecasting, as the report itself says, is very hazardous, and I am not going to make any forecast for 1954. I am prepared to accept as plausible the widely held opinion that 1954 may see a moderate drop in GNP of around 5 percent; i. e., decline from $367 billion to about $350 billion. Budget expenditures in fiscal 1954 will run, it is estimated, at $71 billion. With this massive rockbottom expenditure—unaffected by cyclical factors—it is, I think, plausible to hope that a cumulative spiraling collapse of serious proportions is unlikely.

This, then, we may agree, is not our main problem, at least for 1954. The first really sharp cut in Federal expenditures will come in 1955. Our attention needs, therefore, to be given to the really serious problem which confronts us—that of maintaining the growth, expansion, and momentum of the last 4 years.

In the 4 years 1950, 1951, 1952, and 1953, we lifted the level of output of goods and services by $73 billion, calculated in terms of constant (1953) dollars. This was a spectacular achievement for which it would be difficult to find a parallel. It was achieved, as everyone knows, under the powerful stimulus of massive fiscal operations of the Government. Yet the public debt rose in this 4-year interval by only $18 billion. The disposable income of individuals (i. e., income after taxes) increased by $36 billion, in terms of constant dollars. The liquid accumulated savings of individuals increased by $41 billion. In this interval we added 4,716,000 new units to our stock of urban houses, employment rose by 3,200,000, and the aggregate investment in new producers' plant and equipment reached the massive total of $140 billion. Over and above the rapidly expanding military production, the output of civilian peacetime goods reached unprecedented levels.

Now the real problem that confronts us, I repeat, is this: Can we, as we move further into a peacetime economy, maintain this growth, this expansion and momentum, or are we going to move at first on a flat plateau with the danger that this leveling out process will eventually some years hence engender a spiraling depression? Stated in another way, the problem is: Can we keep the economy moving forward at "maximum employment, production, and purchasing power"?

These are the words of the Employment Act of 1946, and I want to underline them: "*maximum employment, production, and purchasing power.*" Indeed the act specifically says that the Economic Report shall set forth the levels of employment, production, and purchasing power needed to carry out the policy of the act as declared in section 2—the section which contains among other things the goal referred to above. These levels or targets are, however, as far as I can discover, nowhere set out in this report.

I want to stress that the expansion of the last 4 years was a solid growth which left the economy strong, in sound financial condition, and in good balance. There is abundant evidence in the Economic Report itself that this is the case. We entered the year 1954 as free from distortions and maladjustments, apart from the usual inventory fluctuations, as any time in our history. No purging process of readjustment is now necessary. The price structure is in reasonably good balance. There has been no stock market inflation, no excessive expansion of bank credit, and no serious interindustry maladjustments. Wholesale prices have been stable or moderately falling for 3 years. The panic buying price spurt induced by the shock of the Korean crisis in June 1950 had already subsided by February 1951. Wholesale prices stood in December 1953 4.1 percent below the average for 1951, while consumer prices stood 3.5 percent above the 1951 level. Wholesale prices were slightly down; consumer prices (due largely to delayed rent increases) were slightly up. Together they represent a high degree of price stability. It would, I believe, be very difficult to find any period in our history with so high a degree of price stability combined with so large a growth in output as the 3 years 1951, 1952, and 1953. Consider, for example, the quite peaceful years before the First World War. In the 15-year period before World War I, the annual increase in wholesale prices was 3 percent. Compare this with the 1 percent increase per annum from 1948 to 1954, a period be it noted which includes the Korean price spurt. Wholesale prices, I repeat, have risen during the last 6 years only one-third as much per annum as they did in the 15 peaceful years prior to World War I.

And let it also be noted, and indeed underscored, that unemployment in the last 3 years—years of high price stability—averaged only 2.7 percent. Most economists had formerly believed that it was not possible to achieve price stability with so low a level of unemployment. Toward the end of the period, agricultural surpluses were indeed developing, and there were the customary swings in inventory accumulations. But apart from these—and can anyone point to a time when there was an absolutely perfect balance—I have seen no convincing evidence, including the data presented in the Economic Report, which would indicate any serious maladjustments in the economy as a whole—maladjustments which called for even the mild process of so-called rolling adjustment. On this point, it is heartening to note that the Economic Report itself firmly repudiates "the once fashionable theory that a sharp liquidation was good for the economy" (p. 29). At the end of this remarkable period of growth and expansion, the economy, as the report reveals again and again, was strong and healthy; and in about as perfect balance as one could ever hope to reach in a constantly changing world.

Is there then any good reason why we should not move on up to our full potential in 1954, 1955, and 1956 as we did in 1950, 1951, 1952, and 1953? The Congress has in fact set the goal at maximum employment, production, and purchasing power in the Employment Act. Past experience, based on growth in per worker productivity and in the labor force, suggests an annual increase of not less than 3½ percent per annum in the total output of goods and services. In the 4 years, 1950, 1951, 1952, and 1953, the gross national product in constant value dollars increased by an average of over $18 billion per year. This was no doubt an exceptional performance, partly due to squeezing out of some slack in the economy. It was in fact in excess of the well-known 3½ percent long run trend.

Let us assume the moderate figure—a 3½ percent growth each year starting from $367 billion gross national product of 1953. This would give us a gross national product at 1953 prices of $380 billion in 1954, $407 billion in 1956, $436 billion in 1958, and $467 billion in 1960. These are, I submit, minimum targets if we are to take seriously the policy declaration with respect to "maximum employment, production and purchasing power" contained in section 2 of the Employment Act. Indeed, there are not a few economists who, impressed by the massive technological research now going on both inside and outside the Government, believe that prospective increases in per worker productivity justify the use of 4 percent as the rate of growth. On this basis our gross national product at constant prices should reach the figure of $500 billion in 1960. I have, however, deliberately chosen to use the more moderate figure of 3½ per cent—a figure which cannot, I believe, be challenged by anyone.

Now I am not naive enough to think that it will be an easy matter to reach this goal, and certainly not each year. But if we fall short one year, due say to inventory readjustment, for example, we should aim to recover our full potential in the next. We should not reach the full employment goal of $380 billion for this year, but we could make a substantial recovery and move on to our full potential in 1955.

A 5 percent drop this year would give us a gross national product of $350 billion or $30 billion below our potential. Now if we complacently accept that as pretty good, by the same token, a gross national product of $365 billion could be regarded as a good comeback for 1955. But this is again about $30 billion below the 1955 potential. These figures are not forecasts and are used only to illustrate my point. In 2 years we would have lost $60 billion of output. Why do we do it? There has been much complaint about our $5 billion per annum foreign-aid program. Yet a good many people appear not to be too much concerned about a $60 billion loss in the next 2 years.

In chapter 1, the Economic Report does indeed quote the mandate set forth by the Congress "to promote maximum employment, production, and purchasing power." But these words are not repeated and the spirit of the language contained in the act does not seem to me to be incorporated very effectively into the report. Instead, in this same chapter 1, reference is made to a "reasonable measure of stability in the overall level of employment and incomes" (p. 7), and again a page or so later, one reads of maintaining "employment at a high level" (p. 8). This language discloses, I feel, here as elsewhere in the report, a considerable toning down of the mandate laid down by the Congress with respect to "maximum employment, production, and purchasing power."

The report does indeed not infrequently refer to growth and to an expanding level of output. But that is surely something very different from the congressional mandate referred to above. The Economic Report fails, I think, to set forth the realizable goals which the American economy is capable of achieving. Until these targets are set forth, as indeed is explicitly required in the Employment Act, we are in no position to know how far we fall short of our potential. Mere expansion of production might still leave us with a rapidly growing volume of unemployment and with total output far below our potential. I have here an illustrative table showing considerable growth from 1954 to 1960, yet falling short of the 3½ percent output potential referred to above by the gigantic cumulative total of $330 billion. In a great society like the United States we can show considerable growth and yet fall short in a very few years by hundreds of billions of dollars of goods and services which we are able, eager, and ready to produce.

	GNP maximum employment and production potential (1)	GNP assumed moderate growth pattern (2)	Loss of GNP (1)−(2) [1] (3)
	Billions	*Billions*	*Billions*
1953	$367	$367	0
1954	380	350	$30
1955	393	365	28
1956	407	370	37
1957	421	375	46
1958	436	385	51
1959	451	385	66
1960	467	395	72

[1] Total loss of GNP equals $330 billion.

Let us take a look at the prospect over the next few years, viewed in terms of the program laid down in the Economic Report.

First of all, it is important to note that the current transition toward a peacetime economy is completely different from the transition to peace in 1945–47—a period often referred to by way of comparison with the present.

In 1945–47, there was a large backlog of demand for plant, machinery, housing, and for durable and semidurable consumers goods. There is no such large backlog now. For 8 years we have been making good the major war-created deficiencies of business plant and equipment, of housing, automobiles, and electrical appliances, etc.

Consumer debt was then very low, permitting a substantial increase in expenditures financed by consumer credit. Consumer debt is now at record levels in relation to income, and we cannot look for much help here. When the Second World War ended, consumers were saving nearly 25 percent of their disposable incomes. A return to a normal saving ratio permitted a large growth in consumption. Today consumers are saving only 7.5 percent. This is, however, perhaps 3 percent above normal and we might get some small increase in the propensity to consume.

People hold now, as they did at the end of World War II, large accumulated liquid savings. These can and would act as a cushion against depression, but they are not, I suggest, very potent for expansion.

Thus everything considered, the transition to peace is more difficult today.

Under these circumstances, retrenchment in Government expenditures are not easily offset by adequate increases elsewhere. The task will not be easy. And it will not automatically happen without a strong Government program. We have finally reached pretty general agreement, and there is much in the Economic Report which supports this view, that the economy cannot be relied upon to generate adequate aggregate demand. It cannot be relied upon to generate its own steam unaided by Government.

Outlays on producers' plant and equipment has remained at a very high level, rising slowly in proportion to the rise in GNP in the 3 years, 1951, 1952, and 1953. Further expansion is certainly possible but it will not be easy to raise these very high figures very much, especially when retrenchment is going on elsewhere. In the last 8 years we have invested $240 billion in new producers' plant and equipment—in manufacturing, mining, transportation, public utilities, agriculture and other business ventures. Now techniques are indeed continually opening up investment opportunities. But I do not find in the Economic Report or elsewhere any suggestion that we can expect outlays on plant and equipment to rise above the current very high level of $38 billion sufficiently to provide any substantial offset to the prospective retrenchment in Government military expenditures.

I am aware proposals are made in the Economic Report designed to stimulate capital outlays on plant and equipment. I am heartily in favor of accelerated depreciation, but I should like to see it used as an anticyclical device. Unfortunately, as here proposed it would have the effect of intensifying booms and depressions. This is true because business firms will, of course, wish to take advantage during profitable boom years of the lower taxes incident to accelerated depreciation. Thus, investment would be stimulated in boom periods, adding inflationary pressures. On the other hand, accelerated depreciation would offer little stimulus to investment in bad years when profits are relatively small. To be effective, the privilege of accelerated depreciation should be limited to depressed years or years below the trend average. The law could specify such in terms of employment or production indices. So applied, the measure could indeed serve as a stimulus to investment when most needed to promote stability and expansion.

Other tax-incentive devices relate to the proposed tax relief for stockholders. The Secretary of the Treasury, I believe, appeared before this committee and argued that the so-called double taxation of dividends is responsible for the fact that, in recent years, industry has been forced to raise 75 percent of its outside funds from borrowing. The matter is, I fear, far more complicated than the Secretary's analysis would imply. Without attempting here a full discussion of a difficult and complicated problem, a little historical perspective will suffice to disclose that the Secretary's statement greatly oversimplifies the matter. Consider, for example, the 6 years 1922–27—years in which our tax laws were highly favorable to stockholders and corporations. In these 6 years, of total new capital issues, only 26.1 percent were stock issues (Survey of Current Business, January 1951, p. 15) almost precisely the same figure as that quoted by the Secretary for recent years.

It is true that in 1928 and 1929, stimulated by the highly inflated stock market boom of the late twenties, the ratio of stock issues to total issues rose to 45 and 62 percent respectively, but surely no one would favor a return to this kind of stimulus to common stock flotations.

Despite a wider margin between common stock yields and bond yields during the last 15 years, and despite the heavy recent taxes on stockholders and corporations compared to the twenties, corporate behavior with respect to capital issues has changed very little. Superficially, the propensity to raise capital by borrowing looks like bad practice. What is forgotten is that a very large part of new capital outlays is financed out of retained earnings. For this reason, the practice of financing 75 percent of capital issues by borrowing does not mean that the corporate debt position is getting worse and worse. Indeed the ratio of corporate debt to corporate assets is considerably lower than in the twenties. This could not have happened had corporate profits not been highly satisfactory.

So much for what may reasonably be expected from an increase in outlays on plant and equipment. There remains housing, public construction (public works), and finally private consumption expenditures. Let us take a look at these possible offsets to retrenchment in Federal military expenditures—offsets and net additions in order to provide our full growth potential of employment and production. The Economic Report makes proposals with respect to all three, but I am very much afraid that these proposals are far from being adequate.

Let me here interject a note to clarify my position on one point. From the standpoint of national security I have no competence whatever to judge whether or not these proposed reductions in military expenditures are justified. I do want to say emphatically that from the standpoint of economics, the economy is quite able to carry the current and even larger outlays for national security and for foreign-aid programs. But I am not debating this issue here. I am assuming that the reductions in military expenditures will in fact take place, though I fear that they may not be justified from the standpoint of our national security.

What is needed to offset these reductions? To repeat, we shall do very well if we can increase only moderately our current very high outlays on new plant and equipment. The offsets to the Federal military retrenchment plus the expansion needed for growth must come primarily, I suggest, from housing, public construction and private consumption.

I cannot go into detail here. Happily, through research by governmental and other agencies, we are not hopelessly at sea on these matters as in fact we were 20 years ago. Research studies, programs and plans are now available to guide action. I can only make a few stray comments here and there relating to matters covered in the Economic Report.

With respect to housing, it is interesting to note that the proposals made in the economic report fall far short of the housing and urban redevelopment programs supported by the late Senator Taft. The proposals fall far short of the 1949 Housing Act. The economic report states (p. 3) that: "Our approach to a position of military preparedness now makes it possible to turn the productive potentialities of the economy increasingly to peaceful purposes." This is an excellent statement. Why not implement it by making a major attack on our slums, our substandard houses, and the deteriorating areas in our urban communities. Last year we built 1,100,000 new units. The report suggests no target beyond this level, and there is no evidence that it looks forward to any larger program in the visible future. On this basis we can look for no help from residential construction to offset Federal military retrenchment.

One final point on housing finance. I welcome the new discretionary powers granted to the President to alter loan-value rates and terms of maturity, and these powers should be broadened as recommended in the report. I suggest, however, that the committee take a close look at the new proposed mortgage market agency, and also at the suspiciously generous terms on down payments and amortization proposed for low-income families displaced as a result of slum-clearance and urban-renewal activities. There is a danger here, I suggest, of cheap construction, of heavy defaults over the long-run, and the creation of new slums in the future.

Another area for expansion is public construction—schools, hospitals, streets and roads, water facilities, sewage and industrial waste disposal systems. The economic report makes an excellent survey of our urgent accumulated shortages and roads, water facilities, sewage, and industrial waste disposal systems. The that are presented in the report. They are very impressive. They show that we urgently need, over and above the current levels of expenditures, additional outlays per annum of $10 billion for a period of up to 10 years. This means a doubling of the current volume of nonmilitary public construction, i. e., a $20 billion public-construction program instead of the current $10 billion one.

Now the economic report sets out very vividly the problem and the magnitudes involved. But the conclusion reached, I regret to say, is very disappointing. The conclusion reached is that, while the Federal Government can aid some, the problem is mainly one for State and local governments. Currently the total volume of public construction, Federal, State, and local (nonmilitary), is $10 billion per annum. We need to raise it to $20 billion. State and local governments cannot be expected to double their current outlays on public works. This everyone knows. We shall not in fact make good on the urgent needs so eloquently referred to in the President's report unless the Federal Government makes financial provision in some form or other for two-thirds or more of the total. No other proposal is realistic. And as military expenditures decline why should we not increase Federal outlays on these urgently needed public-improvement projects? Neither in the area of private investment, nor even in private consumption, are the deficiencies anything like so serious as the current deficiencies in schools, hospitals, and the other public works covered in the economic report, and indeed in other areas not adequately covered in the report—resource development, for example.

In connection with these welfare needs, there is not even any mention of the urgent need for Federal aid to education. There is no recognition of the fact, well known to everyone who has studied State and local finance, that the poorer States which contain nearly half of our children fall far short of decent educational standards; yet they spend more on education in relation to the total income of their citizens than do the wealthier States. For this situation there is no solution except Federal aid.

Finally, we can and should increase private consumption. This is certainly important, but possibly not quite as important as the public construction needs outlined in the economic report. I suspect that priority should be given to our community needs. Still, through our productive resources are certainly not unlimited, they are adequate to permit some progress on all fronts—business plant and equipment, housing, public construction, and private consumption.

With respect to the latter, the administration's tax proposals suggest a fairly drastic shift toward a more regressive tax structure. I venture to say that these proposals will tend to reverse the trend over the last two decades toward a more equitable distribution of income. We had recently a notable report by the National Bureau of Economic Research on this subject. This report and its favorable conclusion was widely acclaimed as a sign that our economy is healthy and strong. But now it is proposed, I fear, to reverse this development. This is surely the meaning of the suggestion, emanating from a responsible source (though not included, I am glad to say, in the Economic Report), to reduce the current luxury excise taxes to 10 percent and make up the loss in revenue by spreading excises over a large number of mass-consumed goods. This particular proposal amounts almost to a manufacturers' sales tax. Take the proposal (which is included in the Economic Report) to allow (after a 3-year stepup) stockholders to deduct an amount equal to 15 percent of total dividend receipts, not, indeed, from income but from tax liability. I wonder how many people realize that this means that a married person with a $12,000 income, obtained exclusively from dividends, will pay no Federal income tax at all, while salaried people and wage earners with much smaller incomes will be paying substantial income taxes. I suggest that the Congress will certainly want to take a good look at this remarkable proposal.

In conclusion, I have 2 or 3 final comments. The Economic Report declares the "determination of the Federal Government to employ all its powers to prevent severe slumps in the future" (pp. 108–109). I miss, however, an equally reassuring statement that the Federal Government will employ all its powers to promote maximum employment, production, and purchasing power. The Economic Report, if I am not mistaken, stresses primarily the aim of the Government "to use its vast powers to help maintain employment and purchasing power" so that a minor adjustment "may not be converted into a spiraling contraction" (p. 7). Moreover, it expressly interprets the Employment Act of 1946 to mean that the Federal Government is pledged "to use its power to help keep the economy on an even keel," and the report significantly concludes with a chapter not on growth but on economic instability.

Now, it is, indeed, a great forward step for the Federal Government to assume responsibility for the prevention of a slump. Until recently such a declaration by Government was regarded as dangerous and illusory, and fears were often expressed that such a declaration could only give rise to hopes that could not be fulfilled.

The point I wish to stress is this: I welcome the declaration of policy which is made, but I find something of a gap between the aims set forth in the Economic Report and the declaration of the Federal Government's responsibility as set forth in the Employment Act. It is a notable fact that the policy section of that act (sec. 2) does not even refer to the prevention of a slump. It is not cast in those terms. "The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practical means * * * to promote maximum employment, production, and purchasing power." That is the policy declaration of the Employment Act. The Economic Report is excellent as far as it goes, but it is, I feel, not adequate with respect to the major problem that confronts us: Can we maintain the growth, expansion, and momentum of the past few years?

I am aware that many conscientious and thoughtful citizens, while at long last prepare to accept Federal responsibility for the prevention of a slump, regard it as dangerous policy to assume responsibility for maximum employment and production. And one reason is that they are very sincerely afraid that such a program will cause inflation.

In its discussion of stability, the Economic Report has something to say which is very germane to the problem I am raising. The report wisely counsels that the Government must be prepared to reverse itself if it finds it has gone too far. Unless we are prepared to do this we shall never dare to act promptly and effectively. This is the first answer to those who fear that positive governmental action, looking toward our full growth potential, will lead to inflation.

The second answer is that the fear of inflation, in a country like the United States, under peacetime conditions, is grossly exaggerated. Until recently, economists generally doubted that we could maintain price stability if unemployment fell below 6 or 7 percent. We have learned that this is not the case. Experience shows that, apart from quite exceptional episodes, the American economy is not an inflation-sensitive economy. Our experiences in recent years shows that we can push on to our maximum potential of employment and production without suffering inflation.

I suggest that we can never achieve our full potential of maximum employment and production unless we rid ourselves of this fear. We must remember that the experience of 1946 and 1947, when there were large backlogs of demand and serious shortages, is not relevant at all to a situation such as that in 1951 to 1953, when production was going at full blast, when shelves were full, when backlogs had been worked through, and inventories were well replenished. Nor is the Korean panic buying period relevant to peacetime conditions. Should such a complete surprise shock us again, we shall, of course again be in trouble. But it is folly to base our peacetime plans on the assumed recurrence of such episodes.

A second reason for fear of adequate expansionist policies is the perennial obsession about the public debt. This is a subject about which there is an immense amount of double talk. Only in the financial press does one get a rational appraisal of what the debt really means in terms of financial security. United States Government securities are not owned by the few rich. The public debt provides a secure investment outlet for social security trust funds, for savings and insurance institutions, and for small personal savings. It provides liquidity and financial maneuverability for private corporations and business firms. And it is an important basis for our currently sound banking system. The distribution of ownership of the public debt is an important element of strength in the American economy. I am happy to find statements along this line in the Economic Report. I have often said that if all newspapers would publish each day on the front page a table showing the ownership of United States Government securities, the people would have a saner view of the public debt.

The following table shows the ownership of the public debt:

(Federal Reserve Bulletin, January 1954, p. 64)

	Billions
Commercial banks and Federal Reserve	$88.0
Savings institutions,[1] public and private	99.0
Holders of savings bonds	49.2
Corporations and individuals	37.1

[1] This includes social-security trust funds, mutual savings banks, insurance companies, State and local governments (largely pension funds), savings and loan associations, corporate pension funds nonprofit institutions, etc.

The debt is not excessive in relation to our gross national product. If our GNP should rise, as growth requirements demand, to around $470 or $500 billion in 1960, the public debt would hold about the same ratio to GNP as now if it rose to the figure of $375 or $400 billion. I do not say that it will or should reach that figure. But I do say that the goal of a rational fiscal and economic policy is not a balanced budget; it is a balanced, full-employment economy. If we pursue this goal successfully in peacetime, the debt is indeed likely to rise more or less. The guiding principle should be to balance loan financing with tax financing so as to prevent both inflation and deflation and to promote our full productive potential. In pursuit of this principle, some increase in the debt may well be necessary. And there are sound financial and monetary reasons why the debt, then as now, can contribute to the financial security and stability of our growing economy.

The economic report itself recognizes that maneuverability, in pursuit of an expansionist and stabilizing fiscal policy, demands that the fiscal authorities be allowed sufficient leeway within which to operate. I quote from the report as follows: "The Government must and will be ready to deal with any contingencies that may arise. An essential part of this preparedness under present circumstances is a higher Federal debt limit * * *" That is a straightforward statement, and one which I think we can all respect.

I suggest that in an expanding economy the debt limit ought not to be fixed at any absolute level, but rather as a ratio to GNP. This would provide continuous room for maneuvering a fiscal policy dedicated to stability and expansion.

Chairman Wolcott. We are also glad to have with us this morning, Mr. Edwin G. Nourse.

Mr. Nourse, we are very glad to have you with us, and you may proceed, if you will.

STATEMENT OF EDWIN G. NOURSE, ECONOMIC CONSULTANT

Mr. NOURSE. I wish to preface my comment on the economic report proper by making a brief observation about appendix D, which is the text of Reorganization Plan No. 9, sent to the Congress from the White House on June 1, 1953. In this message (page 135 of the economic report), President Eisenhower refers to the Employment Act of 1946 as reflecting the "determination of the Congress to help develop a strong economy in the United States"—strong because it is a free economy, a stable economy, an expanding economy, and a humane economy. Thereupon the President continues, "I believe in the basic principles of the Employment Act, and it is my purpose to take the appropriate actions to reinvigorate and make more effective the operations of the Council of Economic Advisers. Our needs for proper advice on economic matters are equaled only by our needs to have the very best advice and planning on matters of national security."

I think I may speak for the economics profession in expressing gratification over this decision, the outstanding qualifications of the persons selected by the President for this reconstituted Council of Economic Advisers, and the high professional quality of the President's report to which they have made the major contribution. I could easily spend the whole of my allotted time in praise of its workmanship and in underscoring points made in it which I believe are sound and important.

But the purpose of these panels organized by the Joint Committee is, as I understand it, to take a fresh and independent look at the economic situation of the country and means of strengthening it and particularly of getting as full consideration as possible of alternative interpretations and emphases. "In a multitude of counselors, there is wisdom."

I turn therefore to the substance of the President's report itself. Its message to the committee, the Congress, and the country may be briefly summarized in three categorical statements: (1) The economy is essentially sound and at the present time is undergoing only a mild inventory adjustment. (2) The foreseeable trend of this adjustment gives reasonable hope of its completion within a very few months and a resumption of high-level prosperity and vigorous economic growth before the end of the present calendar year. (3) If a trend toward more serious recession, not now foreseeable, or at the time of the report, should develop, the administration has adequate means of stopping or reversing such a trend, has an understanding of how to make these recovery measures effective, and has a determination to use such means promptly and vigorously.

In a spirit of completely nonpartisan economic analysis, I shall undertake to raise some issues which seem to me to be involved in these three propositions and to suggest some qualifications which I believe should have the thoughtful consideration of this committee. I suggest (1) that the economic readjustment begun in the latter part of 1953 is much more fundamental than mere inventory trimming, (2) that we do not have adequate grounds for counting on a second- or third-quarter recovery, and (3) that remedies against further downturn though impressive are as yet unproven and quite difficult of application.

(1) Of course, our economy has resources of almost fabulous richness and our longtime prospects remain bright. Also, our economy is basically sound, freed of many weaknesses that existed in 1929, and with important built-in stabilizers, like unemployment insurance, bank deposits and mortgage guaranties, and farm-price supports. But these are at best pills and poultices. The maintenance of full health and economic vigor depends on the basic metabolism of the body economic or the balance between our capacity to produce and our ability to distribute that product in the commercial market. The fact that an inventory problem made its appearance in 1953 indicates that productive capacity had begun to outrun the purchasing power of consumers even at a time of very full employment, high wages, farm incomes only moderately down, and quite liberal dividends and proprietors' profits—that fact seems to me to indicate that the real trouble lies somewhat deeper than the statistical surface where inventories are counted.

Some business commentators support the President's view that this is only a "rolling adjustment" of slightly unbalanced inventories. They point with pride to the economic sophistication of present-day managers who have not allowed massive accumulations of excess stocks but have proceeded promptly to trim orders and operating schedules to the realities of the supply and demand situation. But this prudent correction of the dealer's, the manufacturer's, or the supplier's position entails the dropping of double shifts, discontinuation of overtime, shortening of the workweek, and some layoffs, rather substantial, according to recent figures.

The possibility of this process engendering further inventory cutting to still smaller sales is fleetingly noted in the President's economic report, but this does not move its authors to any attempt to appraise the attained productive capacity of our enlarged and improved agricultural, commercial, and industrial plant vis-a-vis the absorptive power of the market.

It must be evident, however, that present inventories have emerged from this relationship. The schedule of farm prices, Government-supported under the Steagall amendments and part of the 1948 and 1949 Agricultural Acts, have revealed, if they did not create, a productive capacity in dairying that has already accumulated a surplus of 1 billion pounds of dairy products. Wheat, cotton, corn, and other farm crops have added to this surplus inventory till it amounts to between \$6 and \$7 billion and is now rising at an accelerated rate. The President stated this matter well in his farm message to Congress on January 11, 1954:

> Present laws discourage increased consumption of wheat, corn, cotton, and vegetable oils and encourage their excessive production. The huge and growing surpluses held by the Government act as a constant threat to normal markets for these products * * *. Because such tremendous supplies are already in hand, acreage allotment and marketing quotas have had to be applied to wheat and cotton. An appeal to the Government for sharp acreage reductions for corn appears unavoidable * * *. Therefore, we must move without further delay to treat the fundamental causes of our present excess supplies of farm commodities.

This rather acute inventory symptom seems to me to indicate a considerable supply-and-demand maladjustment, and there is no prospect that this excess inventory will be liquidated by the autumn of this year—or next year.

In the industrial field, steel presents an interesting case bearing on the problem of whether we now face merely slight inventory adjustments or a basic capacity, employment, and purchasing power issue. At the strong prodding of Government and with some special inducements, the steel industry built up from about 100 millions tons of annual ingot capacity at the time of the Korean outbreak to a little over 124 million tons now. This presents no inventory problem because foresighted steel company management cut production well in step with abating demand. The industry is now operating at 74 or 75 percent of capacity. Mr. Fairless, head of the United States Steel Corp., has said that, "All in the world we really need is less pessimism, more 'Detroit talk' [that is, confidence in itself and a boundless faith in the future] and a full realization of the fact that nobody has yet made a dime by selling America short."

He is also reported as saying that he expects his company to operate at about 80 percent of capacity, a little better than the average, in 1954 and that this will be a very satisfactory year. Some security analysts have calculated, and I think quite plausibly, that United States Steel might maintain its rate of profits at that ratio of capacity. But the disemployment of 20 to 25 percent of the more than 900,000 steelworkers of the country would suggest serious maladjustment in a strategic sector of the economy even where the inventory problem was negligible.

The automobile industry cannot much longer sweep its inventory problem under the rug. It has been claiming it could sell almost as many cars and trucks in 1954 as in 1953. But its January production was 100,000 below its planned schedule and February has been further cut. Detroit has been declared a crisis area of unemployment.

The significant issue is not that inventories in January were not of crisis proportions—they certainly were not—but the nature of the forces that had caused them to appear; not the ratio of inventories to January sales but to possible May, August, and November buying levels.

(2) This brings me to my second point, namely that I am less sanguine than is the Economic Report as to the prospect for a spontaneous upturn of business in the next few months. On this point, the President says, in his opening statement:

> Our economic growth is likely to be resumed during the year, especially if the Congress strengthens the economic environment by translating into action the administration's far-reaching program.

And a reprise of this idea occurs in the closing paragraph of the report:

> Our economy today is highly prosperous and enjoys great basic strength * * * the minor readjustment under way since mid-1953 is likely soon to come to a close, especially if the recommendations of the administration are adopted.

If my analysis is correct, the maladjustment between agriculture's productive capacity and market outlets and between plant capacity and labor force in the steel, automobile, and some other important industries cannot be corrected within that time span. Conditions in these strategic areas will probably get worse or at least difficulties become more apparent before stabilizing adjustments have been made and full activity restored.

To get 1954 and 1955 in correct perspective, it seems to me necessary to take a good hard look at what we were doing in 1951, 1952, and 1953. In that period we were (1) mounting a substantial military offensive in Korea half-way around the world, (2) accumulating a vast store of military "hardware" for an apparently imminent World War III, (3) building a "broad industrial base" for fighting such a war or maintaining a high state of preparedness over the indefinite future and maintaining the lead in scientific and engineering development, and (4) while doing all that, we still were maintaining a standard of living for the masses of our people higher than that of any previous time or any other country. The almost fabulous degree of success that we attained in this four-front operation measures the size of the readjustment which now has to be affected.

We have not merely reached a truce in Korea and pushed back the threat of World War III, and produced an extravagant surplus of types of hardware which will never be used and an adequate scale of supply for those that will. We have also during those 3½ years supplied current consumption at home so that our citizens boast they "never had it so good," and have made generous contributions to the well-being of many other countries of the free world. Beyond this, we have effected expansion and modernization in our industrial plant to the point where capacity is at many places in temporary excess, where many farms are overequipped, and where modernization has taken the form of labor-saving mechanization and push-button factory operation to a degree which materially changes the future picture of labor demand. Our railroads in this period have completed a process of dieselization which lengthens the life of locomotive equipment and lowers costs of operation and future maintenance to a drastic extent. Several maintenance shops have been abandoned.

The impact of these changes has not yet been fully measured but is beginning to reveal its magnitude just as the reduction in military drain is beginning to be felt. The President puts this matter succinctly, but in my judgment too mildly, in an opening paragraph of the Economic Report, where he says:

> A great opportunity lies before the American people. Our approach to a position of military preparedness now makes it possible for the United States to turn more of its attention to a sustained improvement of national living standards.

As I have suggested, a full analysis of our problem would add: Completion of industrial preparedness has been accompanied simultaneously with, or a little in advance of, military preparedness. Beyond that, consumers' needs for housing, automobiles, and other consumer durables have been satisfied to a point where the keenness of the need has been alleviated and credit commitments extended to a point where the resiliency of the market to present cost and income arrangements is materially reduced at the very time that capacity for supply has been materially increased.

I do not deny for a moment the insatiability of human wants or the magnitude of the business opportunity which still lies ahead of American business. But I do want to emphasize that it is not simply a blueprint or formula operation to transfer this enlarged and now released productive capacity over into the higher welfare of our people that the President envisages. This transfer entails a very complex process of making price and income adjustments, channeling tax flows, and scaling public spending.

If I may resort to military vernacular, I would suggest that the net effect of the Economic Report is to portray this situation as Operation Little Switch, whereas, in fact, it will prove to be Operation Big Switch. As to the nature of the operation, it seems to me a shortcoming of the report that it devotes itself primarily to the phase of this operation that involves Government policies, fiscal and monetary. It gives but a shadowy hint of the processes of marketing, pricemaking, wagepaying, as well as relevant merchandising effort and investment programs. Personally, I am quite reassured as to the course which this administration has blocked out for itself and has indeed been following during the past year in the areas of debt management under Mr. Burgess and money management under Mr. Martin and the Open-Market Committee. They grasped the opportunity which came to them—deplorably late—of fending off the latest threat of inflationary danger, but stood by promptly to see that that check did not go so far as to produce a deflationary danger. I believe both these agencies, working in mutual respect and cooperation, may be counted on to play their special roles helpfully in the short-run readjustment period as well as the longer-run program of economic stabilization.

Turning from debt management to the taxing and spending aspects of fiscal policy—you see, I am still on fiscal policy—we face the question of the current lapsing of special Korean war taxes and its effect on 1954 business prospects. The Economic Report lists this as a support factor to both consumers and business spending under such recessionary influences as may be developing in 1954. This it undoubtedly is in a qualitative sense, but just what quantitative impact it will have at strategic points in the economic process is open to debate. It has been made the subject of pointed inquiry earlier in these hearings, particularly in exchanges between Senator Fulbright and Secretary Humphrey and Chairman Martin. The issue there was: Do present tax abatements operate more in the direction of stimulation of business enterprise and economic expansion or more largely toward the maintenance of the purchasing power of consumers and the prevention of congestion in the market—with consequent curtailment of production? Collaterally, should further recovery measures, if they are found necessary, be beamed in the one or the other direction primarily?

To this question Secretary Humphrey gave the conventional business answer; that the basic strategy of both short-run recovery and long-run stabilization should emphasize encouragement and stimulation to the business enterpriser. If conditions are made sufficiently favorable for Mr. Humphrey, he will give more jobs and pay more wages to consumers, who then can buy the enlarged product. A reading of the transcript will show that Mr. Humphrey made qualifying comments on the importance of the consumer's role. But as Senator Fulbright interpreted the Secretary and as the press reported him, relief to the businessman was the keynote of his economic philosophy—"Production is the goose that lays the golden eggs."

Chairman Martin was more concerned about consumer purchasing power but, when pressed by Senator Fulbright, he reluctantly gave incentive to the business enterpriser priority over measures to improve the purchasing power of consumers even now.

The issue was debated further by Stanley Ruttenberg of the CIO, by George Terborgh of the Machinery and Allied Products Institute, Gerhard Colm of the National Planning Association, and others Mr. Terborgh emphasized the importnace of measures "favorable to private investment." Mr. Ruttenberg, starting from the premise "We cannot have a dynamic economy without new investments" posed the question: "What is the best way to stimulate such investments. * * * encouraging corporations to make investments in new equipment and new plant, in the hope that such action will create job opportunities and an expanding economy? Or should policy be aimed at increasing the spendable income available to the mass of consumers, thus enabling the American people to buy up the product of existing plant and equipment and encourage expansion to meet ever-widening needs?"

Mr. Ruttenberg's answer was: "If our end is maintaining prosperity and building an expanding economy, we will have to stimulate consumers' income and increase the purchasing power of the American people. * * * This can be accomplished best, at this point in time, by increasing the personal individual income tax exemptions and by permitting excise taxes to lapse automatically on April 1, and even going further and reducing excises more than the automatic provisions permit."

Mr. Colm noted the interrelation of production and consumption but pointed out that:

> The President's report emphasizes the needs to stimulate business expansion and investments in equity capital. It fails to demonstrate, however, that present taxes are actually obstructing business expansion or that the proposed changes would substantially increase investment under present conditions. In fact, it points out that business investments have been very high in the recent past in spite of the high level of taxes. * * * Production will not be stepped up unless producers expect an increase in their markets. Even a tax incentive for stepping up production will be ineffective unless the producer is confident that he will find consumers for his products.

Colm computed the additional income to the middle and lower income brackets from the expiration of war rates on January 1 and from additional reductions included in the administration program at only about $2 billion of relief to consumers and what would be needed for a satisfactory progressing economy at $20 billion.

While I regard this as an extreme comparison, it must be evident that the reasonable inference from my own analysis is that sound economic strategy for economic stabalization and recovery in 1954 would give maintenance of consumer buying priority over stimulus to plant expansion and modernization or the enlargement of profit incentives to operation. I have already pointed to the extent to which we have caught up on plant capacity during the last decade or so. Where emphasis is laid on the need to provide for expected growth of population, it must be remembered that we are just entering a dip in the population growth trend as the scanty baby crop of the depression years reaches maturity. As to modernization it should not be forgotten that, besides improvement in quality and the appeal of novelty, it aims strongly at labor-saving and the reduction of jobs in semiautomatic plants. Perhaps that could wait a little, desirable as it is, while we see how well we succeed in getting full and prompt market absorption of the product of our already expanded and modernized plants—and farms.

Besides tax abatement, this bolstering of consumer buying power must come about from higher labor incomes or lower prices. Raising wages at this time tends to discourage full-scale employment at the same time that it buttresses consumer buying. Lowering prices facilitates the maintenance of volume sales, but at the same time tempts producers to curtail operations. Between this Scylla and Charybdis there is an open channel where costs of production are fully recouped and consumers' incomes are sufficient to command the whole output at prevailing prices. But a great deal of mismatching in this dual price-income structure has grown up in 5 years of inflationary boom and a great deal of revision will have to be worked out before the economy will be adjusted to changed and still changing conditions and stabilized at high productivity for the brilliant future that should lie ahead.

This is why I am less sanguine than the President's report and than a considerable segment of the business community who believe that our present troubles or forebodings will be over within a few months. If the complex shifts, adjustments, executive decisions, group negotiations, pragmatic compromises, administrative adaptations, and legislative authorizations have been worked out so as to add up to a reasonably consistent and constructive total by the end of 1955, I think our system of free enterprise and democratic government would be giving a pretty good account of itself. It would not be spiralling collapse, to use Mr. Hansen's phrase. It would be something of a resting or correction period.

(3) The Economic Report clearly envisages the possibility that the present situation may show further deterioration rather than early recovery. It says (p. 72):

> Impressive as are the factors which justify confidence that the current settling of business activity will stay within relatively narrow limits, it should be recognized that periods of readjustment always carry risks with them. Continued imbalance could result in cumulative effects as one sector of the economy reacts upon another. Such reactions are partly psychological in character, but they are nonetheless real. * * * Whether they take one form or another, they could become impediments to smooth adjustment. To avoid the adverse consequences that existing uncertainties might generate, the Government should, and can, make clear its ability to face them and to take the steps necessary to deal with them.

The ensuing discussion of "pathways to strength" is cast predominantly in terms of long-run stabilization policies on basic economic reforms such as revising the tax structure, correcting the farm-support program, providing aid to housing, broadening social insurance, systematizing the planning of public works, and improving trade relations with other countries. Excellent though these proposals were per se, they are to only the most limited degree calculated to give first aid if a near-term recessionary emergency should appear. This is consistent with the administration's evaluation of the present situation as a milk-inventory adjustment. Of his recommendations for action by this Congress, the President says (p. 76 of the report):

> It is not a legislative program of emergency measures, for the current situation clearly does not require one.

This I find a little hard to reconcile with the President's stress on preventive measures (pp. 111–112):

> The thought that the Government can stand aloof until some price index or unemployment figure reaches this or that magnitude * * * is not a realistic

concept of public policy. It overlooks the need for constant vigilance and preventive action, day by day and week by week.

On what day or in what week would preventive measures against a progressive downturn in 1954 be brought into use?

Assuming that that question will have an answer at the proper time, we turn to the assurances that action will be prompt and decisive and that the means for heading off recession and achieving recovery are ample. One paragraph on the next to the last page of the Economic Report sets this forth:

> The arsenal of weapons at the disposal of Government is very formidable. It includes credit controls administered by the Federal Reserve System, debt-management techniques of the Treasury, and the authority of the President to vary the terms of mortgages carrying Federal insurance, apart from the wide extension of that authority recommended in this report. It includes the administration of the budget, which permits more flexibility than is commonly appreciated, quite apart from new legislation or new appropriations by the Congress. It includes also other areas of action, such as taxation, public works, accelerated depreciation for defense plants, and the newly recommended agricultural supports. And if the powers possessed by the Executive should need to be increased to cope with some new economic development, the administration will promptly seek from the Congress the additional authority that it requires

This declaration raises two questions: (1) Can such further business deterioration as might develop in the second, third, or fourth quarter of this year be successfully combated by action yet to be inaugurated? Or (2) is it sure that legislative action needed to implement even a properly conceived and properly timed policy of the Executive (or the grant of requested new powers) would be authorized by a regular or special session of the Congress without delay? I need not elaborate that issue before this committee.

I shall merely examine briefly the specific weapons of the formidable arsenal mentioned in the paragraph just quoted from the Economic Report and make brief comment on their recovery potentials.

(*a*) "Credit controls administered by the Federal Reserve System" have great power, vigorously used to damp off a boom and considerable powers to aid in a recovery movement once convalescence has got under way. But they have very limited powers to check a recession and virtually none to initiate a recovery. We may have full faith in the intention and ability of our Federal Reserve System to see that business has an adequate supply of money at all times, which they are stressing as their prime function, but should not expect dramatic results from "pushing on a string."

(*b*) "Debt management techniques of the Treasury" can contribute importantly to long-run stability of the economy and by their competence and flexibility can see that the very large funding operations of the Government shall not become a disturbing factor in the money market but be well adapted to the needs of other borrowers and the availability of money. Even the most skillful techniques of debt management cannot spark recovery if producer psychology or consumer behavior is adverse.

(*c*) "Authority of the President to vary the terms of mortgages carrying Federal insurance" is a really important defense weapon, and I hope the Congress will give early consideration to the President's suggestion that this power be enlarged. It is an important and somewhat vulnerable feature of our present situation that great numbers of people are heavily committed under farm and city mortgages and that many of them have Federal backing of one kind or another. While the terms of these mortgages have been greatly improved with the growth of long-term amortization, rigid adherence to even these terms in time of business recession may become an aggravating factor. Well-timed moratoria on such obligations can prevent foreclosures and the forcing of properties on a distress market. Postponement of these payments during a period of reduced income permits current resources to be applied fully to maintaining purchases of current needs and minimizes the strain on merchants and manufacturers. I would adjudge this a defensive weapon of considerable power to stem retreat but not an offensive weapon capable of opening a new advance.

(*d*) "Administration of the budget" also would permit tactical maneuvers that would bring financial reinforcement at points of special weakness and thus have some defensive value but not decisive fire power for launching an offensive.

(*e*) "Taxation" by leaving in the hands of businessmen and consumers more of such income as they already have would enlarge their powers to maintain the market for goods and services—to the extent that these people would in fact spend this money in the face of such lack of profit incentive or fear of partial or full disemployment as they might have. No one can appraise these possibilities pro and con with any accuracy, but I have already expressed my belief that tax relief to consumers would be, broadly speaking, more efficacious in our present economic situation than relief to producers and more efficacious if concentrated in the lower-income brackets where spending pressure for necessities of life is greatest.

(*f*) "Public works" seem to me to be held out in the Economic Report as promising more in the way of solution to a recession problem than can rightfully be expected of them. We cannot cure unemployment in the textile industry of New England by building more power dams in the Rockies. Labor populations are relatively immobile both by reason of training and experience and family and community ties. If a public works program keeps the construction industry reasonably well occupied, that is about all that could reasonably be expected, leaving the problems of other lines of business still to be faced.

The President's report calls attention (p. 104) to a great backlog of "tens of billions of dollars" worth of public works "needed to keep abreast of the growth of the economy and to eliminate within, say, the next decade, the accumulated need for extensions or improvements of highways, schools, hospitals, sewer and water facilities, parks, forests, and other elements of the public estate." I like that phrase.

The report stresses here as well as elsewhere, the important part that States, municipalities, and other spending and bonding units have in this regard. If Operation Big Switch is to be carried through successfully, quite a slice of the Nation's resources which have been flowing into the military buildup and the completion of the "broad industrial base" will need to be redirected to public works, locally supported but with some Federal aid. I might say, locally directed and selected. This will sometimes require local willingness to increase local taxes as Federal taxes subside and to vote bond issues at a time when citizens are disposed to caution because of the fact or the fear of less exuberant boom conditions. Mr. Freeman, of the State of Washington, discussed this issue most ably in the panel on February 10. He concluded: "It does not seem likely that more than about one-third of the planned drop in Federal expenditures can be offset by State and local spending in the next 2 years."

(*g*) "The newly recommended agricultural supports" are, except in the case of wool, aimed at lowering the overstimulative price level in this area. I believe they are soundly conceived for the economic health of agriculture and the long-run stability of the economy. I do not see how they add to the formidable arsenal of weapons against the current recession or could contribute to an upturn this spring, summer, or fall.

In conclusion, I would repudiate any suggestion that what I have said here or elsewhere brands me as a "prophet of doom" or allies me with some mythical "fear deal." To quote from a distinguished member of this committee (Senator Douglas):

> We should not be frightened but we should be alert. And the watchman who gives a warning to the people in due time so that they can protect their interests is serving the public more faithfully than he who administers sleeping tablets to get people to believe that all is well and nothing need be done—only to find that the danger later bursts upon an unprepared public.

And repeating my own words at a bankers' meeting last September:

> It is my conviction that no one can scare a sound economy into a depression and that Pollyanna cannot keep business errors and Government subterfuges from facing an ultimate day of reckoning. We stand a better chance of checking recession before it gets out of hand and of initiating real and timely recovery measures if we unshrinkingly dig out and face the facts, however unpleasant—

which this committee has certainly been doing during the past 2 weeks.

> We are treading fresh ground. No policymaking or administrative group has ever had practical experience in getting so big an economy as ours, constituted as we are, and with such institutions as we have developed, down from a high-speed (but not runaway) boom onto a steady level of normal prosperity. The burden of proof is on those who are so sure we can do it with only an almost painless process of gentle deceleration. Our chance of succeeding will be increased if we do not underestimate the difficulties of the problem or overestimate the efficacy of the available means of control.

Chairman WOLCOTT. Thank you very much, Mr. Nourse.

Senator Flanders.

Senator FLANDERS. I would like to address a question or two to Mr. Nourse, and it is along the lines of a letter which I had in the Washington Post February 15. You may have read that letter.

Mr. NOURSE. I am sorry to say I have not, Senator.

Senator FLANDERS. You belong to the vast majority.

Mr. NOURSE. I have been very diligent in attending these hearings.

Senator FLANDERS. I will not refer, then, directly to the letter, but to some of the thoughts behind it.

What weight do you place on the very great volume of savings which the statistics show? Are they of any particular significance with relation to expanding production and employment? Should they be padded in some way, either for application to investment, or should savers be persuaded in some way to spend that money perhaps for personal consumer purchases?

Mr. NOURSE. Answering the last part of the question first, I have said in various public addresses that if consumers button up their pockets and wait until some time when prices are dropped, they will be helping to contribute to the recession. They should continue, in my judgment, as liberal spenders up to their reasonable interpretation of what their resources are, their available incomes, and how much it is wise, in the circumstance, to draw upon the reserves that they have accumulated. If they are saving them for a rainy day, well, when it rains is the time to use them.

On the other hand, I have a paper here which I gave a St. Paul audience a short time ago. I would be glad to submit this portion for the record, the section, "Can the consumer save the day?" The essence of that section is to say first that the large savings of consumers—they are unquestionably large—are to a considerable extent illiquid. So your question is directed particularly to the very much lesser part of those savings which is in a liquid position.

(The material referred to follows:)

CAN THE CONSUMER SAVE THE DAY?[1]

A point often put up as a clincher by those who are confident about 1954 is that the consumer will play the decisive role of rescuer in the economic strategy of the year now opening, whatever may happen in other quarters. Those analysts who find a source of great confidence for the future in the well-heeled consumer make three points: (1) That disposable income of private spenders has never been at so high a figure as in 1953; (2) that consumers have been saving at an unusually high rate and now have an unprecedented volume of accumulated assets; (3) that the mass of our people have raised their standards of living, that they like this more gracious way of life and propose to maintain it.

This raises a very nice question about the mechanics of prosperity. Which comes first—the hen or the egg? Do consumers initiate a pattern of spending which then causes producers to get busy filling this order list? Or does venture capitalism create a pattern of activity and employment that gives jobs and pay envelopes (and dividend checks) that enable consumers to take this large and attractive output off the market? Of course, we know these are phony questions. Neither is first, but both act and react upon one another. So don't take it for granted that this consumer argument is a one-way street to perpetual prosperity. Let us look to see just how these people reason who think that the strength of consumer demand is going to take care of the economic problems of maintaining top prosperity in 1954 and 1955. This is partly a question of accounting and partly a question of psychology.

Those who count on the private consumer to save the day say: "We recognize that there will be some decline in Government spending and in business spending. But consumers can make up the difference. They have both the ability and the willingness to close the gap." This prompts a look to see how large a gap it is. Guesses as to declines in Federal expenditures mostly range from five dollars to ten billion dollars. Surveys of businessmen's intentions to spend on maintenance and improvement suggest a drop of only about $1 billion from the very high figure of $28 billion in 1953. But the intentions reflect what they would like to spend if prosperity keeps up to present levels. This is obviously an expansion figure. If business actually declines only 10 percent in 1954, would business spending for plant and equipment drop by less than that percentage? By just about that same ratio? Or would many plans for expansion and improvement be postponed entirety? The less optimistic suggest that we might see business investment dropping not only 1 or 2 billion dollars but 5 or even 8 billion. A tremendous number of building plans have been completed or are nearing completion. The pressures of 1946 and 1951 are far spent.

Well, I shall not try to guess a figure but merely to ask a question in logic. If Government spending, business spending, and, we might add, export demand all added together substract $15 billion from the market for goods and services next year, is it clear that Mr. and Mrs. Consumer can and will step in and add that amount of spending money from their resources?

Here we need a little more accounting and some elementary psychology. As in the figures, we must look chiefly to industrial wages and farm income. Many of you sell in farm communities. Are farmers going to have more to spend than they have had in recent years? And do the prospects for city employment suggest

[1] Excerpts from remarks of Edwin G. Nourse in address to Minnesota Retail Hardware Association, St. Paul, Minn., January 17, 1954.

that wage earners as a group will have larger and steadier pay envelopes? Market demand is not mere longing. A top executive of one of our largest advertising companies points out that very large numbers of our people still do not have bathtubs or telephones or TV sets—all the business world has to do is to cultivate this virgin market. He does not explain how those who could not afford these niceties of life in the boom years of 1952 and 1953 will be able to afford them in 1954—with even a litle unemployment and a mild form of slump.

At this point cheerful references are made to the enormous savings that have been made by the public in the last few years. Here the accountant must do some work on the very tricky savings figures to show us which are real and which are phony, which savings are liquid and which are fixed. A great deal of this saving has been in the form of current payments on homes under amortized mortgages and on television sets and automobiles under installment purchase plans. These savings cannot be tapped by the salesman eager to reverse any recessionary tendencies of 1954 by enlarging the total volume of consumer purchases.

But, as I said, this issue of the consumer market involves psychological attitudes as well as actual purchasing power. I fully agree on the importance of salesmanship this year if we are going to keep sales and orders and hence employment up to as good a level as possible. And to the consumer collectively I would say: Be as good a spender as you can prudently be in 1954. Don't button up your pockets and wait for depression bargains. That would be one fine way to assure a depression. But at the same time we need to ask whether in fact the consumer is going to be a soft touch for making up a drop of 10, 15, or 20 billion dollars of business and Government spending.

The psychology of the buyer is influenced by three things: The money in his pocket, the hunger in his belly, and the fear or hope in his heart. Now I am not going to try to put a weigh ticket on each of these factors in the business situation. You are merchants in a particular field. Your success calls for knowing the answers to these questions: (1) How are current and prospective incomes for farmers and mechanics, factory, and white-collar workers running as compared with a year ago, and as they will run at the end of this year? (2) Translating hunger into need or desire for goods in your field, what part of the full demand for hand tools and shop tools; for household gadgets, mechanics' supplies, and farm hardware; for paint, and what not has already been supplied? How much is postponable? (3) Are consumers going to dip into their liquid savings next year to maintain and even raise their standard of living? Or are they going to husband their past savings and be even more thrifty than last year with their current earnings because of some uncertainty as to how far the dip may go?

The way you answer this question will determine how you feel about whether recession will be both mild and of short duration. We are an impatient people, accustomed to good times, and so it is not strange that so much attention centers on calling the time of the recovery even before there is general agreement about whether or not we have a recession. It makes pleasant reading to find such statements as this: "There will not be either inflation or deflation in 1954. * * * Six important factors will help to prevent the current decline from extending to the end of the year and will, instead, reverse the trend later in the year." The history of business fluctuations, however, suggests that quick recoveries of this sort occur only when the nature of the difficulty was a money panic or an inventory crisis. The present situation certainly is not a money panic, nor could we have one under present financial institutions. Nor is it an inventory crisis. It is often pointed out that inventories have been the object of skilled attention and almost continuous adjustment to current conditions.

Thus it would seem to me sounder reasoning to fix attention on the longer-run adjustment between productive capacities and price-income relations that have, during the past 15 years, been made under conditions of war and preparedness and that now have to be stabilized on a more permanent basis to whatever conditions emerge from the death of Stalin, the truce in Korea, the four-power conference in Berlin next month, and other developments as yet unfathomable. I find it hard to believe that such massive and complicated adjustments can be accomplished within the span of a few short months. Still less can I credit the claim that they have already been more than half completed. I would question whether they have yet actually been faced in realistic terms.

Hence I suggest that our major concern in 1954 should be to keep recessionary tendencies, already emerged, from snowballing into unmanageable recession. Working out a practical nonboom way of life seems to me the first step in this direction. If we can get our feet set steadily in that path by the second half of 1955 or the first half of 1956, I think we shall be doing very well. That would be acomplishing the "wonder of the world" that the President referred to recently, that is, carrying an inflationary military boom over into sustained peacetime prosperity without an intervening depression.

Senator FLANDERS. For example, life insurance is illiquid.

Mr. NOURSE. They can borrow to some extent on that insurance savings.

Senator FLANDERS. Yes. But that is a drastic thing to do.

Mr. NOURSE. Yes. But what they have saving for houses and installment payments on durable consumers' goods and so forth, that too, is relatively illiquid.

Now the other point that I would make here is as to how willing they would be to spend those savings to maintain current expenditures, or still more, to undertake new commitments because it is to be stressed very much that the consumer durables part of our problem is the serious part of the problem. I should not suppose that the psychology of people who have lost overtime, who have a short workweek, and who see their friends, or perhaps one wage earner in the family, disemployed, would be to dip very recklessly into those savings.

I suspect the place where savings would be spent most promptly would be in the small-income, large-family groups, at the bottom, where the savings are least.

Senator FLANDERS. Now, it is your point, or is it your point, that there is little hope for expanding purchases by persuading people to dip into existing savings?

Mr. NOURSE. Yes; not enough to save the day, to use the expression I used in my St. Paul speech.

Senator FLANDERS. You put your whole emphasis on the lowest income group?

Mr. NOURSE. No; I put major emphasis on the lower income groups.

Chairman WOLCOTT. But not the whole emphasis?

Mr. NOURSE. Right. On the lack of savings available in large enough volume, but also on the question of psychological attitude: Can you expect to have an increased spending from savings of people whose incomes are dropping off in this period—an increase of spending out of savings which would be sufficient to offset the drops that are occurring from military and business spending?

Senator FLANDERS. Just in passing, you made one reference to population growth, and did not seem to be particularly impressed by it at the present moment. It has seemed to me, on the other hand, that we have come to a place where that is going to begin to tell. The new crop of babies is just going to school, and while you can dress them in gowns made from flour sacks so long as they are running around the floor and the yard, when they start to school, they have got to start spending for them. So I think there is a definite factor in the population growth which about now is beginning to take hold.

Mr. NOURSE. Yes. The only point I wanted to make there was that it will not continue the rate of family formation and the building and furnishing of houses at the same rate it has during this period since the war, with the accumulated backlog of need and the very high rate of family formation and marriages and setting up of separate domestic establishments in that period.

Senators FLANDERS. Mr. Chairman, there is just one other point I wish to raise with Dr. Nourse. The history of the unemployment situation from 1933 to 1939 has always fascinated me, particularly the brief upturn in 1936 and the shattering of it in 1937. But first let us look at that whole picture of 1933 to 1939. There was the time when obviously production facilities were complete. There was no need, from the standpoint of meeting the current effective demand of putting any more money into investment. A little went in, the whole effort during that time related to consumer consumption, to providing for consumer funds all through those 6 years.

As between the beginning of that period and the end of that period, it seems to have been at least relatively a failure. Why should it have been relatively a failure then, and why should we expect practically sole dependence on it now to be successful?

There are differences, but I would like to have you tell what your thoughts are on that.

Mr. NOURSE. I have not placed reliance on stimulating consumer spending as the only means or the sole thing that we could depend on now. In fact, I have rather discouraged an overdependence on it.

Senator FLANDERS. There is an overdependence now on bolstering consumer purchasing power?

Mr. NOURSE. No. I beg your pardon. I misunderstood you. I thought you were talking about bolstering producer expenditures.

Senator FLANDERS. Yes. I was saying that we avoided that in 1933 to 1939, but the supporting of consumer expenditures did not seem to be effective that period. Why should it be effective now and not then? I admit there are differences, but I would like to have you explain how the differences are favorable to the present situation and were unfavorable to that.

Mr. NOURSE. I would say that we have a greater productivity to be absorbed through consumer expenditures at this time than we had then.

Senator FLANDERS. But productivity was ample then for any effective demand.

Mr. NOURSE. I think that that is one of the questions of mass behavior of which the wisest man cannot answer as to why there was not more response to certain things at that time.

Senator FLANDERS. But is it not important that we form some judgment as to why it was not responsive then, and to wonder whether, whatever it was that made it unresponsive then may or may not be effective now? Maybe the past is prologue to some other play than the one in which we are engaged now. I do not know.

Mr. NOURSE. I do not think I could give you a fully satisfactory answer to that question, Senator.

Mr. HANSEN. Could I add a word there, Senator Flanders?

Senator FLANDERS. I would be glad to have you do so.

Mr. HANSEN. In the thirties, you are quite right that we made very small capital outlays in plant, but we did make capital outlays on business equipment which were approximately equal to the best years of the twenties, through several years in the middle and late twenties. I should say that what was needed in all such periods is an advance along all lines, and in that period the advance that we could have made very well was a big increase in housing, residential construction. It would need a program, however, and we were just beginning to build up a program toward the end of the period. But if we had had a program, we could really have gone forward on housing in that period which in turn would have stimulated construction very much more than it actually was.

In all of these periods, you have to advance on all fronts, and I think that is true now. The main difficulty now is that our investment in plant and equipment is so high that we can only hope to keep it there and perhaps increase it a little.

Senator FLANDERS. I may say that my own old industry is convinced that the machine-tool equipment of the country is obsolete and worn out. That is the only segment of industry that I am acquainted with.

Mr. HANSEN. Always in our history, a large section of industry is far from up to date. You remember, there was a famous engineering report in the middle of the twenties on that, which gave the distribution of industry. You never find a time when all the industries are strictly up to date. Suppose that happened tomorrow; wouldn't we be in a bad way if all of a sudden all industry was modernized to the present top level? We would all be broke, if that would happen.

Senator FLANDERS. It was the suggestion yesterday that if the machine tools were all replaced and gotten up to date, we would be faced again with technological unemployment. So we are in the same old circle.

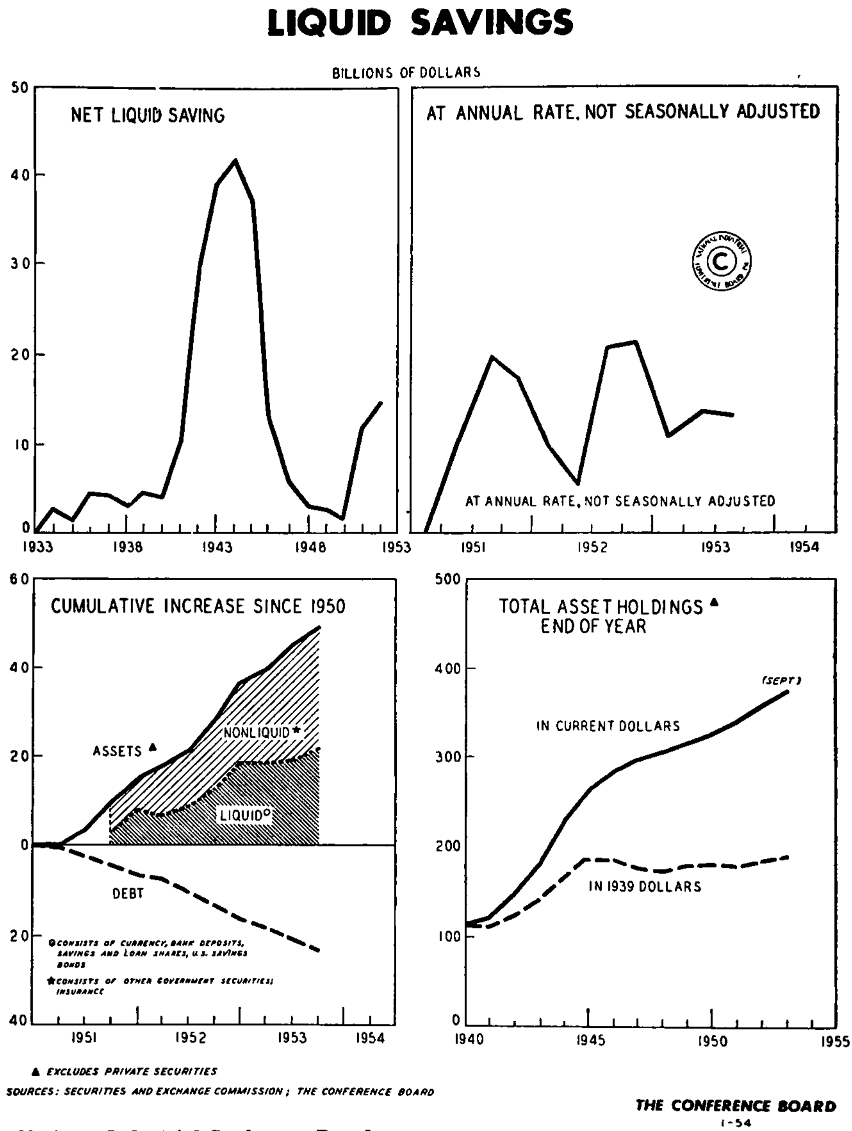
I think that I have asked the questions that I wanted to ask. I am still puzzled, however, by the fact that concentration on supporting the consumers' funds did seem to fail in those 6 years, and that we are proposing to undertake it again.

Mr. GAINSBRUGH. May I break in at this point?

I would like to say a good word for the savings habit and for investment at the current time. First, returning to Senator Flanders' questions about savings, I believe we have had considerable abnormality introduced into our system since the end of World War II. I do not believe this is the best of all possible worlds as we face the problem of readjustment in 1954. One of those abnormalities was the inflation and what it did to the consumer savings ever since the end of World War II.

I will submit for the record a chart showing accumulated savings since 1940, through the year 1953. It demonstrates that despite the high rate of savings since 1950, our accumulated liquid savings are now no greater than they were at the end of 1945 or 1946, in terms of their purchasing power.

(The chart referred to follows:)



National Industrial Conference Board.

What that implies is that the consumer has had to go back to save at an increasingly high rate in order to maintain his backlog of savings. It happened in my own particular individual instance. I set aside funds for the education of my children when they would be ready for college, in the form of Government bonds. Five or six years later, I now discover that those Government bonds will not supply the income necessary to put them through college. I must therefore go back to saving at a rather high rate in order to hold my backlog where it was.

Now, with price stability, or with price decreases, the accumulated savings pick up in terms of purchasing power. They become more satisfactory from the point of view of the savings-backlog position of the consumer. It should be possible, therefore, for the savings ratio to come down, I believe, more readily in the months ahead than in periods in the past.

Turning from that to investment as distinct from the savings process, the funds that do flow into our thrift institutions are not eliminated from the monetary system or from the economic system proper. They have been actively invested ever since the end of World War II. I know of no indication currently that savings are being bottlenecked because of lack of investment outlets.

Finally, I come to the desirability of the stimulation of investment currently. I would put that higher—even though I recognize the need for stimulating consumption—than my colleagues on the panel have this morning, for this particular reason. We have yet to restructure American industry to accord with true postwar consumer demand and the emerging consumption requirements of our population. We have built up capacity that is excessive in many quarters under the stimuli of war and defense. We have yet to build up capacity in numerous sectors of the consumer market—say, in the service industries, or in the cultural areas, that will begin to reflect increasingly consumer demand of the future.

We need flexibility in investment. We need risk capital for the new growth industries. We need a steady flow of capital resources into the new emerging areas of consumption.

This I can tell the committee. We at the Conference Board have been all around the country in the course of the past several months, listening to business talk at our meetings about its plans for the future. The population curve is virtually the overriding single statistic that is stressed in such discussions. It accounts for their desire for further expansion—and their rejection that we face a major contraction.

What we need, and I think what will be stimulated by the tax program that has already been advanced, is a cultivation and enrichment of risk capital. I think the growth process will then result almost automatically; it may not if the primary stress is upon boosting consumption.

Mr. Nourse. I would like to make one point, if I may here, that any seeming divergence here between his point of view and mine is, I think, that he is focusing on long-run, strategic considerations. I am facing the question of the short-run technical situation of getting out of this recession period which he so well described.

Senator Flanders. Would you class the election in the fall of this year as one of the short-run problems?

Mr. Nourse. As an economist, I refrain from political comment.

Senator Fulbright. He is not a prophet of gloom and doom. He does not wish to prophesy that result.

Senator Sparkman. It might be a short-range problem with long-range implications.

Chairman Wolcott. Are there further questions?

Senator Sparkman. I would like to ask just a few; not much.

You, Mr. Gainsbrugh, said you were going to put a complete table in showing savings. Will that show the breakdown according to income levels? I gather from what Dr. Nourse said that the stepup in savings over the past several years, or certainly at the present time, tends toward the higher-income levels rather than the low-income levels. Is that right?

Mr. GAINSBRUGH. No. The Federal Reserve Board as of January or February of this year surveyed the holdings of savings by income classes throughout the Nation and reached the conclusion that savings in 1952 were relatively widely distributed among income groups. (See Federal Reserve Bulletin, June 1953.)

Senator SPARKMAN. Do you make any distinction between the liquid savings and what Mr. Nourse referred to, I believe, as "illiquid" savings?

Mr. GAINSBRUGH. The Federal Reserve study related primarily to liquid assets held by consumers rather than to the nonliquid and liquid assets combined.

Senator SPARKMAN. And not savings that you might refer to as being earmarked; for instance, savings that were held for the purpose of meeting the monthly payments on the house of the home purchaser, and things of that kind?

Mr. GAINSBRUGH. I cannot answer that.

Senator SPARKMAN. One thing that puzzles me is this statement. If I understood correctly, I believe it was you, Mr. Gainsbrugh, who said that our savings had been stepped up or maintained and at the same time you pointed out that the rate of spending has been maintained.

Mr. GAINSBRUGH. Yes.

Senator SPARKMAN. But at the same time, you pointed out that there had been a lessened income, both by disemployment, or unemployment, and cutting down of extra hours, and so forth. Now, how does that happen?

Mr. GAINSBRUGH. That is quite an unsoluble problem at first approach.

Senator SPARKMAN. It is for me. I thought perhaps you could solve it for us.

Mr. GAISNBRUGH. We are bothered by it. But one answer to it is this: Despite the loss in overtime in manufacturing, the weekly paycheck as late as December of 1953 was virtually the same as it was in December of 1952. Wage rates had been increased during 1953 and apparently the increase in wage rates during the year had been sufficient to offset the declining factors, at least in the manufacturing area. Tax relief also warrants consideration in that connection.

Second, there is a delay between the release of personal-income figures and the very quick release of the production and unemployment figures. I think we will begin to see possibly in the first quarter figures, when they are release for personal income, a cutback in income that was not as yet evidenced in the fourth-quarter figures. This was already beginning to appear in the data for November-December 1953.

Senator SPARKMAN. In other words, it is not apparent yet because of the delay.

Now, just one other question of Dr. Nourse, or any one or all of you. This question is asked me frequently. If there is this sag in the economy of the country, how do you account for the high-level activity of the stock market?

Mr. NOURSE. You mean the volume of transactions rather than maintenance of the prices?

Senator SPARKMAN. Yes. Maintenance of prices is what I had in mind principally. But I think you could say the activity too. But certainly the price level.

Mr. NOURSE. I never was much impressed with the barometric qualities of the stock market. One thing, of course, is notable, that the stock market never got out of hand on the up side and overdiscounted the earnings situation. One thing which I think has been a factor in the strength of security prices is the more liberal rate of dividend disbursement as a ratio to earnings and perhaps a reassurance that probably that rate of dividends would be better maintained this coming year than at first had been thought. But I think that stock market behavior is largely a question of mass psychology, which the economist as such has no answer for.

Senator FLANDERS. Did I understand you to say that the economist had little to do with psychological factors?

Mr. NOURSE. No; not at all. That is as far as anything can be from my general philosophy. They are very important. But I said, to be a psychological diagnostician and explain the psychology of mass behavior is not within the economists' professional competence.

Senator FLANDERS. That rules the economist out of the prophetic role.

Mr. NOURSE. I think you should.

Senator FLANDERS. All right.

Senator SPARKMAN. Dr. Nourse, I was wondering when you were making your statement that perhaps it had not been written prior to the President's press conference, and if it would have been changed any had you written it afterward.

Mr. NOURSE. It was, as a matter of fact, completed the day before the press conference, but I think that I would have stayed with my economic analysis rather than change it.

Senator SPARKMAN. I thought as a matter of fact he drew a little nearer your analysis yesterday than in the report.

Mr. NOURSE. I think so. Mr. Gainsbrugh also is closer to it than he has been during the past year.

Senator SPARKMAN. He has made some changes so recent that they were written in in pencil.

Mr. GAINSBRUGH. I cannot miss this opportunity, Senator, to respond to your question.

No. 1, I think one of the reasons why stock prices have held up as they have since the start of the year is that some tax relief may be forthcoming to business, particularly excess-profits tax relief.

No. 2, this administration has indicated a greater awareness of the impact of high taxes upon business incentive than any previous administration in terms of various forms of tax relief that may be forthcoming in the future, if not currently.

No. 3 is in a sense a reflection of the high tone of business confidence, the belief that, if we do face the problem of "big switch" in the months immediately ahead, it is not a long-range problem. Business and the investor are apparently convinced of long-term growth. The mature, stagnant economy thesis does not figure in industry's mind currently.

I am reminded of the statement that the president of General Motors made: If the proposed capacity expansion for 1954–55 is not used in those years, General Motors is convinced that the capacity expansion will pay off and is extremely desirable for the middle years or the longer range.

I do not know all of the factors and am as ill versed in the stock market as Mr. Nourse, here. But I think these are some of the factors that are tending to hold stock prices high.

Mr. NOURSE. I would like to add one psychological fact without attempting to appraise it. I think it has been evident that, when Mr. Humphrey told the country from time to time that there was nothing to worry about, the stock market responded to that and to other administration pronouncements along the same lines.

Senator SPARKMAN. May I just suggest that one day Mr. Wilson said that there was nothing to worry about in Detroit, and the next day it was declared a disaster area.

Chairman WOLCOTT. Will you yield to me on that?

Mr. Wilson reiterated after that, however, that they would not channel any defense contracts into Detroit, because it would be disastrous only for a short period of time.

Mr. HANSEN. Senator, could I add just this one word about the stock market? I think that what is impressive about the stock market is the very high stability of the stock market over the last 3 or 4 years. I do not think we ought to think of the present stock market as extraordinarily high. It has been very stable over a long time. There was a marked advance, an overoptimistic advance, after the new administration came into power in the early part of 1953, and there was more or less a technical reaction from that. And, other than that, we have had a remarkably stable stock market for 3 or 4 years.

Senator SPARKMAN. May I say that is what I really meant, rather than "advancing" or "high." I meant it had maintained at a high level and maintained stability at a high level. That is all. Thank you, Mr. Chairman.

Senator FULBRIGHT. I wanted to ask Mr. Nourse about his comment on price supports. I wonder if you would develop that a little—your analysis of the effect of agricultural price supports. Did I understand you to mean that over the short term a change may have a depressing effect?

Mr. NOURSE. Yes. I think that that would be true, in spite of the fact that it is offset against acreage reductions at the present time. I think I said something to the effect that that could not be counted as a stimulative factor this year. So far as it counted one way or the other, it would be an added difficulty to cope with.

Senator FULBRIGHT. That is what I meant. Looking at this short term, which is the way you really were devoting most of your attention——

Mr. NOURSE. Definitely.

Senator FULBRIGHT. A change in the present support level to the so-called flexible system would have a depressing effect, would it not?

Mr. NOURSE. It is long-run strategy for getting agriculture in balance. Present programs have tended to get it out of balance. Let us say agriculture has been on stilts; well, you do not want to trip him up now.

Senator FULBRIGHT. I am not saying that. You are saying it.

Mr. NOURSE. I am saying it. I will take responsibility for that. Now, it seems to me that what is proposed at the present time is to cut those stilts down by 3 or 4 inches and not to trip the farmer up. But even to lower supports to that extent is disinflationary.

Senator FULBRIGHT. So that this question of timing being as important as you recognize it to be, and most of your remarks with regard to the increasing of exemption in taxation are connected with that phrase, "at this time"——

Mr. NOURSE. Yes.

Senator FULBRIGHT. I think we all accept that.

Mr. NOURSE. Surely.

Senator FULBRIGHT. So it would be fair to say that if this situation is a recession, as I understand all three of you to agree, it does not seem wise to change that particular aspect of our economy at this time, no matter how wise it may be at a time of greater stability.

Mr. NOURSE. These are matters of practical judgment, Senator.

Senator FULBRIGHT. Certainly.

Mr. NOURSE. And my answer to that would be that, even though it is somewhat disinflationary in its impact, the thing has been aggravated by the successive extensions of the higher supports to a time where, in Secretary Benson's phrase, it is falling under its own weight now, and that we had better accept a little of the medicine of correction now. With lower prices and no production and marketing restrictions, the farmers' income position might be maintained or improved, whereas lower prices would benefit the consumer, the exporter, and the industrial user of farm products.

Senator FULBRIGHT. I want to point out very clearly, because it has been misunderstood, that it was Mr. Benson's own discretion to support butter at 90 percent. The law did not require that, and I have never understood, in view of his enmity to high supports, why he took the responsibility of putting it at 90 percent last year.

Mr. NOURSE. He will never be able to rationalize that with the rest of his philosophy.

Senator FULBRIGHT. He is now complaining that it is too high. Congress has never said that perishables had to be supported at that level. In fact, they have said the contrary. So this idea of high stilts and that we have imposed it on him is quite erroneous insofar as butter is concerned, certainly.

Mr. NOURSE. You had delegated that discretion to him.

Senator FULBRIGHT. And he chose to put it at the highest possible level on his own responsibility.

Mr. NOURSE. I do not think he chose. He yielded to pressures to put it on.

Senator FULBRIGHT. Not to my pressures. I do not know whose pressures he yielded to.

Mr. NOURSE. I would not specify where the pressures came from.

Senator FULBRIGHT. Now, the difference that you have mentioned between yourself and Mr. Gainsbrugh is all-important. It is the timing of what we do that is important, as it is in most things in life. What may be good over the long period may well be disastrous as of the moment. I think you all agree to that.

Now, would you comment a little more with regard to the President's statement yesterday that if employment did not rise in March, I believe he said, he would take it as a warning that called for further Government action, including possible tax action to raise the spending power of the consumer. I believe that is what the New York Times said he said. What do you think of that?

Mr. NOURSE. I think that is reasonable in the premises, that in a situation now such remedies as they believe will be helpful should be applied as soon as they get what they regard as clear guidance in the matter.

Senator FULBRIGHT. Do you think that is some qualification of his point of view as expressed in the economic report?

Mr. NOURSE. I think I could, with a little time, pick out statements there which clearly foreshadowed that sort of action. I think my colleagues will bear that out.

Senator FULBRIGHT. How would you feel that that is consistent with Secretary Humphrey's point of view and Mr. Martin's point of view?

Mr. NOURSE. You mean with respect to that situation?

Senator FULBRIGHT. That you referred to in your own statement.

Mr. HANSEN. Investment versus consumption.

Mr. NOURSE. I am afraid I have not followed what you are pointing out as an inconsistency.

Senator FULBRIGHT. I am referring to the tax action to raise the spending power of the consumer. You referred to the exchange that I had with Mr. Martin with regard to this consumer purchasing power, with regard to taxation. Now, they were quite positive in their attitude with regard to that matter. This seems to me to be some qualification of that point of view. Do you agree that it is?

Mr. NOURSE. Of course, they did not say that the stimulation of consumption was of no concern. But the President has placed his emphasis at a point where they did not place their emphasis in the exchange with you. That is clear, I think.

Senator FULBRIGHT. There is some difference, it seems to me, in the point of view. He now recognizes the point that I believe you are in agreement with, that as of this time more emphasis, at least, should be given in these policies to consumer power. I do not think that was the point of view of Secretary Humphrey and Mr. Martin as reflected by the testimony to which you referred.

Mr. NOURSE. That is right.

Senator FULBRIGHT. Do you agree to that, Mr. Hansen?

Mr. HANSEN. Yes, I do.

Mr. NOURSE. There is no question about it.

Senator FULBRIGHT. And you would, I take it, both agree that this latest pronouncement of the President is a little more in accord with proper policies than what has been stated here by Mr. Martin and Mr. Humphrey; is that right?

Mr. HANSEN. Yes.

Mr. NOURSE. That is correct.

Senator FULBRIGHT. It may be that these hearings have had some influence on the White House, although I would not have expected it to come so soon.

Do you have any comment on that, Mr. Gainsbrugh? I do not want to exclude you here.

Mr. GAINSBRUGH. I think in all fairness, the report on page 113 does refer to the fact that the Government will act promptly if conditions require. Page 113 of the Economic Report:

The fourth principle is to act promptly and vigorously if economic conditions require it. The Government will not hesitate to make greater use of monetary, debt management, and credit policy, including liberalized use of Federal insurance of private obligations, or to modify the tax structure, or to reduce taxes, or to expand on a large scale the construction of useful public works, or to take any other steps that may be necessary. The Government must and will be ready to deal with any contingencies that may arise.

Senator FULBRIGHT. I think that is too general a statement to have any meaning, because when they did present specific programs, and we asked them about it, we got the response that Dr. Nourse referred to, which is implementing that very broad general statement.

Mr. GAINSBRUGH. I think that was reenforced by Mr. Riefler's statement here yesterday or the day before. The change in business in the last few weeks has moved the administration perhaps a little bit closer to the course of action that was developed in the President's press conference.

Senator FULBRIGHT. Yes, which is encouraging, to see that this is not an inflexible attitude they are taking. It is encouraging from my point of view, certainly.

One other point, Mr. Hansen, that interested me, was your comparison of the stability of prices in the last 7 or 8 years with the years preceding World War I. That surprised me very much. Maybe I am the victim of the propaganda I read condemning the subversive Democrats, but I thought we had wrecked this economy by our price policies in the last 6 years. Did I understand you correctly?

Mr. HANSEN. Yes. I said that from 1948 to the end of 1953, the wholesale prices had increased 5.5 percent. That would be an average of 1 percent a year in that period. And in the 15 years prior to World War I, they had advanced 3 percent per annum in that period.

Senator FULBRIGHT. Per annum?

Mr. HANSEN. Per annum; three times as much.

Senator FULBRIGHT. Yes. I think that is right remarkable.

Mr. HANSEN. And consumer prices increased in this period from 1948 to the end of 1953 by 12 percent. That would be an increase of about 2.2 percent per annum. Now, even that is not really an inflation. We can find other periods that we regard as fairly stable where we had that much of a change in consumer prices.

Senator FULBRIGHT. How did this idea get abroad that we have been in this horrible inflationary period?

Mr. HANSEN. That is what I have been wondering, Senator. I have been trying to write a little bit about it. I wonder, too.

Senator FULBRIGHT. It could not have been manufactured?

Mr. HANSEN. Well, Senator, we did have a marked advance in prices from June 1946, to the beginning of 1948, and that was a very impressive event, and people do not forget it.

Senator FULBRIGHT. You mean, during the 80th Congress? Is that the time that all these prices rose when they took off controls?

Mr. HANSEN. I think another thing that has usually not been recognized is that that advance came mainly in the first 9 months after the price controls were removed and then rapidly slowed down, after the first 9 months advance. And by January 1948 it was over and we have not had inflation since then, as I look at it. We had a buying spree after Korea, which would occur again if such a shock appeared in the world. Nothing could stop it, in my judgment. It appeared all over the world. But even with that Korean spurt—that is included in my period from 1948 to the end of 1953—even with that, we had greater price stability from 1948 to now than we had before World War I.

Senator FULBRIGHT. One other last comment, and I am going to ask you to affirm it, because it was very reassuring to me, if I understood all three of you, that you regard the prosperity that we have enjoyed in the last 6 or 8 years as being on a sound basis and not a phoney prosperity?

Mr. HANSEN. Certainly.

Senator FULBRIGHT. And I believe, Dr. Nourse, you said the same?

Mr. NOURSE. I would qualify that a little. I would say that under that facade of prosperity, our very real prosperity, that we had accumulated considerable vulnerabilities. And while there is basic strength, that was my emphasis on the vulnerabilities. You see, there are a good many mismatchings of prices and incomes and maladjustments which have to be worked out.

Senator FULBRIGHT. I was just seeking a little personal comfort. I have read so often that it is phoney that I have almost come to believe it. It is very reassuring to have you experts say that you think that it is a sound economy that we have constructed, with some built-in safeguards, and that there is no reason to feel that it is going to fall apart.

Mr. HANSEN. Surely.

Senator FULBRIGHT. I wonder if Mr. Gainsbrugh would disagree with that same statement?

Mr. GAINSBRUGH. I would like at least to direct attention to the fact that we did have perhaps one of the worst inflations in the history of the United States, that our wholesale price level, as well as our Consumer Price Index, even after recent correction, is now above the zenith of any past inflation this country has ever experienced. No matter what you do with the statistics in the short run, you are still left with this final conclusion. At the end of the 1940's, our wholesale price level was twice at least what it had been pre-World War II. Our Consumer Price Index is at least 90 percent higher than it had been prior to World War II. Our accumulated savings, as I mentioned earlier, had been cut in half by the process of inflation since the end of World War II. That, too, has to be put into consideration in evaluating the record of the past decade.

I do concede that we have built into our system some stabilizers. But we may have also built into our system some rigidities that will bother us in the months and years immediately ahead as in agriculture currently. We have a big problem of readjusting our system to normal peacetime demands, and that, too, is an inheritance of the past 10 years.

Senator FULBRIGHT. What is the main difference of your view with Mr. Hansen's view?

Mr. HANSEN. I might perhaps clarify it a bit. It is certainly true, as I have already said, that we had a substantial increase in prices from June 1946 to the beginning of 1948, I disagree that it is the worst inflation in our history. I wolud not agree with that at all. I would say that in this case, as against earlier periods of very marked increases in prices, always associated with war, this time we did better than at earlier times, with respect to the fact that we have not taken the deflation of prices after the war was over, which was a very serious matter in earlier times. We first took an inflation, which was bad. and then a terrific deflation. This time, at least, we only took the upgrade and stayed there, which is what we should do, and not take a deflation afterward.

Moreover, I think that Mr. Gainsburgh's figure refers back to the 1939 level. We got some adjustment upward to about the same level as the twenties by the end of the war. I think it would be more appropriate to judge the price increase from 1945 to the present time; 1945 was not higher than the level of the prices in the twenties. We started from an abnormally depressed level prior to the war, and I think it is much fairer to take the base of 1945 and 1939 in estimating such price inflation as we have had.

And I would say this. You cannot fight a big war without a considerable price inflation. It never has been done and never will be done. That is just a part of war And so let us not consider that as something that we take account of in our peacetime planning.

Senator FULBRIGHT. One other comment, and I am through.

Do I understand all three of you to agree that the large public debt is not necessarily an evil, that it has certain stabilizing effects on our economy, or not?

Mr. HANSEN. With the size that it now has, I think that definitely is the case, and I think that is borne out by what one reads in the financial press almost every day. Everything in economics can get out of balance. You could get a debt that is dangerous and bad. What else is there in economic life of which the same thing may not be said? You can get too much of almost anything. You need balance in economic life.

The size of the debt is moderate in relation to our gross national income, I would say—and you can read a recent report of the Twentieth Century Fund, which I think comes to the same conclusion. It is a factor of stability in our economy.

Senator FULBRIGHT. Thank you very much.

Representative TALLE. Mr. Chairman.

Chairman WOLCOTT. Mr. Talle.

Representative TALLE. Reference was made a moment ago to the 80th Congress. Now let us turn back and ask ourselves if it was not wholly to be expected that there would be a price increase in the period from June of 1946 to 1948.

The controls were still on, as you remember, and the then President thought, in October of 1946, that it would be politically wise to remove them prior to election because the temper of the people indicated that they wanted it done. And so the President did remove the controls in October of 1946, and certainly with so much pent-up demand as had been held back during the war years, and with the tremendous shortages of civilian goods because our productive capacity had been used for wartime production, I say with demand at that high level pent up over many years and with the shortage of so many goods that people needed and could pay for, and with the return of millions of people from the armed services who wanted to establish homes and engage in civilian life—it certainly was to be expected that prices would rise from 1946 to 1948.

Mr. NOURSE. That is right.

Mr. GAINSBRUGH. That is very true.

Mr. HANSEN. Yes.

Senator CARLSON. Mr. Chairman.

Chairman WOLCOTT. Senator Carlson.

Senator CARLSON. I was intrigued by a statement of Mr. Hansen that I think ought to be discussed briefly, and I do not intend to detain the committee but a moment or two, and that is in regard to the debt limit.

I was interested in your statement that, "The debt limit ought not to be fixed at any absolute level, but rather as a ratio to GNP."

Of course, that is one of the impending problems in this session of Congress. We are operating right up against the very limit. Do I take it from your statement that there should be no ill effect from increasing the national debt limit?

Mr. HANSEN. If the gross national product rises, as it must if we are going to maintain reasonably full employment, and the debt rose in something like the same proportion, it would then have the same ratio to GNP as now. If it is true that the debt now is an element of stability in our economy, it would be true 6 years from now if the debt had risen in the same proportion to the gross national product.

It is the ratio that is important, in my judgment, Senator Carlson.

Senator CARLSON. I believe I noticed in your statement that if the gross national product that reached $400 million to $475 billion or $500 billion, the national debt might be $475 billion to $500 billion.

Mr. HANSEN. No; I think your figure is higher than mine, but I put it at about the same ratio as it is now. I think I have it—what is it—$375 billion to $400 billion?

Senator CARLSON. Then in other words, as I get your statement, in a growing and expanding economy, we should not be so concerned as to what the debt limit is as to try to keep a growing and expanding economy in this Nation, and that it is not conducive to good operations of the Government and the future of the Nation to try to limit it to $275 billion?

Mr. HANSEN. Yes; I agree with that statement.

Senator CARLSON. It was my privilege to serve in the House when we started raising the debt limit from $45 billion to $300 billion, and I was present when we reduced it to $275 billion. So it has been interesting to watch the development, and I appreciated your statement on it very much.

Chairman WOLCOTT. Mr. Hansen, I shall precede my question by a statement. I have never seen a statutory debt limit that did not recognize a difference between long- and short-term debt, such as we had in 1937–38, when we removed the differential, that added any particular effect, even psychologically. As long as the Congress, which sets the statutory debt limit, and then appropriates money over the debt limit, they by implication increased the debt limit. So I could never see any effect of a debt limit which did not, as I say, recognize a defferential between short- and long-term debt.

Senator Carlson recalls when the national debt limit was $45 billion and the bonded debt limit was $30 billion. There was a differential of $15 billion.

Senator CARLSON. That is right.

Chairman WOLCOTT. Then we removed that differential. So the total debt limit today is the bonded debt limit, also.

Mr. HANSEN. Yes.

Chairman WOLCOTT. Now, I think we all are very interested in your suggestion that we take the debt limit as a ratio to gross national product. There is one thought that came to me, that that might work out all right when the money was going up. But what would happen if it went down?

Mr. NOURSE. That is a good question.

Mr. HANSEN. Whichever method was done, there should be, I think, a considerable leeway. And you can fix a leeway on the ratio basis just as well as you can on the absolute basis.

Senator FLANDERS. Would it not be natural, as a matter of fact, to have the debt limit going up when the gross national product was going down?

Mr. HANSEN. Yes. That is perfectly true.

Chairman WOLCOTT. That would be deficit financing.

Mr. HANSEN. Yes; that is perfectly true.

In a long trend growing economy, there is no good reason why we should lower the absolute debt limit and certainly not in times of depression. Thus the rule might simply be to base the ratio of debt to GNP on a trend GNP line.

Chairman WOLCOTT. Are there further questions or discussion?

Representative BOLLING. Yes, Mr. Chairman, I have a few questions.

Chairman WOLCOTT. Mr. Bolling.

Representative BOLLING. I came in late, so that I did not hear Mr. Gainsbrugh's statement or all of Mr. Hansen's, but I think this question is primarily directed to Mr. Nourse and Mr. Hansen.

I would like to be sure in my mind of the meaning of your statements with regard to timing. You both suggest that you have come to certain conclusions with regard to the economy, although you avoid, in effect, predicting. My question is, Are you now convinced that from what you see and estimate of the economic future, the Federal Government's action, corrective in various fields, those fields that you particularly suggest as possible areas for further action, could well be undertaken now, or should there be a further waiting period?

Mr. NOURSE. Do you want to start, or shall I?

Mr. HANSEN. You go ahead.

Mr. NOURSE. I think the reasonable inference from what I said is that the Economic Report is a little too leisurely in its approach to this thing, rather than that it was too impetuous. That is water over the dam. I would not have any quarrel with the statement that was made by the administration that they would regard the reading of the indicators as of March, which is a strategic time, as being the trigger mechanism for their launching of their program of action. But I would want to add one thing to that, which goes a little beyond the timing. That is the magnitude and direction of what they should do. I am a little distressed in the report of the President that so much emphasis is laid upon the ability of the Government to solve these problems through things that it does within its range, which is primarily fiscal and monetary.

Now, I think, if you heard the whole of my statement, you would recognize that I feel that a great deal of what has to be done is in the making of commercial adjustments, price and income relationships, in the private market outside the area of Government action. And I would have liked to have the report stress this factor more than it does. It mentions it, but I would like to have it given more stress from here on. If things get worse in March, I would like to have the administration rally the various interests of the private business field to make those adjustments, to face the realities and make adjustments to meet them, and not rely on the Government solving the problem for them merely by fiscal manipulations or monetary policy.

Representative BOLLING. Before you get on that one, Dr. Nourse, I would like to pursue this particular point.

You, then, I take it, have considerable confidence in the efficacy of exhortation?

Mr. NOURSE. I think I would say on the appropriateness of exhortation. I think that sets the problem right. Now, whether it would be effective or not, I hesitate to say.

Representative BOLLING. That, of course, is a question of mass psychology.

Mr. NOURSE. Yes. But I would not like to have the Government prejudge it and therefore fail to make a fight on that front or say that if we fail there, the Government will and can step in and make remedies from the Government's side of the economy, because I do not think the Government program can be made fully effective unless the adjustment also is carried on vigorously and effectively and with much forbearance by the various parties to the economic process.

Representative BOLLING. Now, of course, it seems to me that this is a very key question. I have always understood that the process of exhortation was a very long and drawn-out one, and I wonder what you think the lag might be between the initiation of exhortation and results.

Mr. NOURSE. I do not know. I wish it had been done sooner.

Representative BOLLING. That is what I was trying to find out.

Mr. NOURSE. It never will move fast enough.

In a speech that I made recently, I said I was quite interested that Mr. Fairless and others had talked about psychological factors so much because there had been such howls of derision when we in the Council of Economic Advisers in its early days followed the line of what was called the jawbone attack.

Representative BOLLING. Do not let me in any way put words in your mouth. But, if I understand you correctly, you feel that in this particular area, the area in which government may influence but may not do, that it would be well if more had been done in influencing to date?

Mr. NOURSE. Yes; and more from here on.

Mr. HANSEN. My answer would be "Yes," that the Government should act now. I would stress a point made in the Economic Report—I mentioned it in my statement—namely, the Government will never be bold enough to act effectively unless it is also prepared to reverse its action. That is a statement in the report, and I think that is tremendously important. So I would say act vigorously now and be prepared to reverse action if it is discovered that the action taken is too stong. And a strong action taken now would have very profound expectational results. It would affect expectations and thus affect the action of businessmen and consumers very greatly.

As Dr. Nourse well knows, I have very little faith in exhortation, but I would have faith in the Government's announcing a program.

Then you get pychological reactions or expectations that are very, very effective.

But I have very little faith in exhortation as such, and I also, as Dr. Nourse knows, have very little faith in the short run in price adjustments. I have great faith in price adjustments in the long run. In the long run we get clear out of balance if we do not have continuous price adjustments as technology develops. But in a business recession I have very little confidence in price adjustments accomplishing any good; and, indeed, they may accomplish a good deal of harm in terms of the expectation of further cuts in prices.

Representative BOLLING. Let me make sure I understand this. In fact, what you have said is that the policy that was pursued apparently until yesterday, the policy of optimism that everything is going to be fine, had the reverse, perhaps, psychological effect?

Mr. HANSEN. I think so. It made people more pessimistic because why are they talking as thought everything is all right? I think it has the reverse effect.

Representative BOLLING. Would you like to comment on that, Mr. Gainsbrugh?

Mr. GAINSBRUGH. As I indicated in my statement, I believe it is still too early to tell whether the inventory correction will produce the self-correcting mechanism to turn the economy upward. But it will not be long before we get a fairly clear answer to that. I would say by March or April we will know whether end-product demand has actually continued high enough to take the excess of goods off the market place.

I agree entirely that exhortation, while it may be somewhat educational in character, seems to have little impact unless it is accompanied by a program of action.

My emphasis there, perhaps, may be different from the other members of the panel. I would put my primary emphasis upon tax relief and tax reform rather than upon public works or some other form of make-work activity.

Representative BOLLING. Now I would like to address myself briefly to the question of public works. It is clear, it seems, that there is a tremendous lag between the initiation of planning for public works and the impact of public-works construction on the economy. I have never been able to get a very good, even general, guess as to what kind of lag that was. My feeling on it—and I believe this is accurate—is that there is not now any reservoir, and well-coordinated, well-planned, well-integrated reservoir of public works at all levels in existence in this country; and I would like to get some comments. The point on which I would like the comment made is how long it takes the public works initiated in the planning stage to have an effect upon the economy and whether or not at this moment in time it would be well for the Federal Government to have such a reservoir.

Mr. NOURSE. I will make one comment on that, that I think in the field of highway building we probably have our most comprehensive and consistent prospectus of public-works possibilities. Now, the mere fact that government has it and gives grants-in-aid for that program doesn't mean that it would be carried out up to the level that Mr. Moses referred to the other day of $5 billion a year for 10 years to bring our highway system up to the needs of our economy. When you pass to other areas, like schools and hospitals, I think there is no possibility of getting a comprehensive national plan and shelf of works of similar sort, that those have their origin and must derive their support primarily from local communities and up to the State level rather than from the Federal. Certainly, whether or not an adequate program could eventually be developed, I should say it is much behind the level at which the highway thing has been developed.

On dams and power sites and that sort of thing, I suppose that would be rather intermediate between the two.

Mr. HANSEN. I should like to say that I think one of the reasons why we have such an excellent program with respect to the roads is just that that is an area where the Federal Government plays a very important part and has built up research over the years, so that you have a planned program.

I would suggest that we would have exactly the same program, as well worked out in other areas, if the Federal Government played a correspondingly important role. And I feel certain that you cannot get what the President sets out as our urgent needs in this area unless the Federal Government steps in and plays a much more important role than it has in the past.

Now, we have an excellent example of the Federal Government playing a good role in the Hill-Burton hospital building program. That is a splendid example that ought to be developed in other areas. But I see no reason why we could not have a well-thought-out plan and program in these other areas just as well as in public roads. Why do we have it in public roads and not elsewhere? The answer is that the Federal Government plays a large role in roads.

Is our kind of society one in which we are more interested in roads and racing up and down the highways than we are in our schools? I insist that the President's report itself indicates how urgent the needs are in this area. And I completely disagree with Mr. Gainsbrugh in saying that public works is not an area that we ought now to step up. We ought to step it up because it is our really urgent need. It is much more important. The deficiencies are far greater there than in private consumption or private investment. There is really where our deficiencies lie.

Mr. NOURSE. But there are technical differences there. The nature of the highway problem, the necessity for transcontinental roads, and that sort of thing, has led the people to accept this leadership of central government in a way that they would not accept it in an educational system.

Mr. HANSEN. They accepted it in the Hill-Burton hospital building program and are very happy about it.

Mr. NOURSE. The Government role there, I think, is still moot.

Mr. HANSEN. It is a financing role.

Mr. GAINSBRUGH. I think if there is any basic difference between Professor Hansen's approach and mine, it is the emphasis I would place upon State and local participation in the public works arena rather than Federal.

In that connection, my emphasis on tax relief and tax reform is primarily designed to put the pressures on to swell demand in the private sector, rather than to resort to the same type of techniques that we tried in the 1930's, rather unsuccessfully. I think the more funds we turn back to our people and turn back to business, the greater will be the multiplier impact of that type of approach to anti-recession goals.

In addition to that, I think Federal tax relief and tax reform will provide a better tax base at the State and local level that is currently in existence. That is part and parcel of the problem of public works. The need does exist. The backlog is accurately recited in the Economic Report. But is the financial structure such that the State and local mechanisms can bring these things into being without relying upon the Federal Government to do the job itself?

Mr. HANSEN. That is the question. How do you answer that?

Mr. GAINSBRUGH. By giving the State and local governments a better tax base, as Mr. Freeman outlined in his testimony.

Representative BOLLING. Mr. Chairman, I will forego my "commercial" this time.

Chairman WOLCOTT. Go ahead. We would welcome an opportunity to have it discussed.

Representative BOLLING. No. That is all right.

Chairman WOLCOTT. We are very grateful to you gentlemen for having been here; you have made a very valuable contribution to our studies. If I have not already made it clear, you may have an opportunity to extend your statements and remarks in any details you deem germain. As I have explained before, that is not limited to tying together split infinitives, but it may go even further.

At this time, I sould like to say that we asked the Council of Economic Advisers to give certain information with respect to unemployment by months, and a table showing information with respect to the receipts from the Federal Unemployment Tax Act. That has been furnished by Mr. Burns, and without objection it may be put in the record.

(The statement referred to follows:)

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, February 4, 1954.

The Honorable JESSE P. WOLCOTT,
Chairman, Joint Committee on the Economic Report,
G–14, Capitol Building, Washington, D. C.

DEAR CONGRESSMAN WOLCOTT: In compliance with the request of your committee, I am enclosing a table which shows unemployment by months from January 1948 through January 1954.

Al enclosed is a table showing (*a*) receipts from the Federal Unemployment Tax Act, collected by the Federal Government under the 0.3 percent rate on covered employment, and (*b*) the expenditures for administration of the unemployment insurance system. You will notice that the figures for 1953 show actual collections and expenditures and that the figures for 1954 and 1955 are estimates.

As indicated in the first footnote to the latter table, the expenditures which might be charged against the Federal Unemployment Tax Act receipts cannot be known in advance of legislation specifying what is to be included in administrative costs. The second footnote should be kept in mind if any projections beyond fiscal year 1955 are attempted.

If I can be of further help, please let me know.

Sincerely yours,

ARTHUR F. BURNS.

Unemployment, 1948–54

[Thousands of persons 14 years of age and over]

Month	1948	1949	1950	1951	1952	1953	1954
Monthly average	2,064	3,395	3,142	1,879	1,673	1,523	----------
January	2,065	2,664	4,480	2,503	2,054	1,892	2,359
February	2,639	3,221	4,684	2,407	2,086	1,788	----------
March	2,440	3,167	4,123	2,147	1,804	1,674	----------
April	2,193	3,016	3,515	1,744	1,612	1,582	----------
May	1,761	3,289	3,057	1,609	1,602	1,306	----------
June	2,184	3,778	3,384	1,980	1,818	1,562	----------
July	2,227	4,095	3,213	1,856	1,942	1,548	----------
August	1,941	3,689	2,500	1,578	1,604	1,240	----------
September	1,899	3,351	2,341	1,606	1,438	1,246	----------
October	1,642	3,576	1,940	1,616	1,284	1,162	----------
November	1,831	3,409	2,240	1,828	1,418	1,428	----------
December	1,941	3,489	2,229	1,674	1,412	1,850	----------

Source: Department of Commerce, Bureau of the Census.

The following data are submitted in response to the question on the excess of receipts under the Federal Unemployment Tax Act over appropriations to carry the costs of the State and the Federal Government in administering the act.

Budget for fiscal year 1955

[Millions of dollars]

	Fiscal years		
	1953 actual	1954 estimate	1955 estimate
Federal Unemployment Tax Act receipts:			
Existing legislation	275.8	290.0	292.0
Proposed legislation	------------	------------	16.0
Total receipts	275 8	290.0	308.0
Bureau of Employment security expenditures: [1]			
Salaries and expenses:			
Existing legislation	5.3	5.3	4.8
Proposed legislation	------------	------------	.3
Grants to States for unemployment compensation and employment service administration:			
Existing legislation	202.2	190.0	[2] 183.2
Proposed legislation	------------	------------	21.8
Total expenditures	207.5	195.3	210.1
Excess of receipts over expenditures	68.3	94.7	97.9

[1] The actual appropriations or expenditures which may be charged against Federal Unemployment Tax Act receipts cannot, of course, be known in advance of specific legislation. The Reed bill, for example, includes some additional appropriations that may be so charged.

[2] This figure reflects "A decrease of about $30 million [which] will result from a change in financial arrangements, by which advance payments to each State before the opening of each fiscal year will be reduced from an amount covering 3 months' operations to an amount for 1 month." Budget message of the President, fiscal year 1955, pp. M96–97.

Chairman Wolcott. This completes the public hearings. We are very grateful to all the participants. We think they have made a delightful, worthwhile record. We surely know much more about the economic situation than we did when we started.

I think we can look into our crystal ball and find it a little clearer than we did 3 weeks ago.

We want to express our appreciation to the panelists and all the witnesses. I want also to express my personal appreciation to the members of the committee for the activity and interest which they have shown.

We will have, from now on, executive sessions in respect to the report, which I hope can be compiled in time to meet the statutory deadline of March 1. We have reasonable assurance that we will be able to meet that deadline.

Additional materials, referred to during the hearings, on consumer finances, business capital expenditures, and employment statistics on the "new sample" will be inserted at this point if they become available in time to be included in the printed record.

(The materials referred to above were received on March 19, 1954, and are as follows:)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MARCH 19, 1954.

PRELIMINARY FINDINGS OF THE 1954 SURVEY OF CONSUMER FINANCES

This article presents preliminary findings of the Ninth Annual Survey of Consumer Finances.[1] These surveys are conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan for the purpose of obtaining information on consumer financial positions, consumer views about their economic prospects, and some indications of consumer plans for purchasing durable goods and houses. The surveys are based on field interviews in January and February of each year and cover a representative sample of the consumer population.

In interpreting survey findings, it is essential to keep in mind that there is no necessary relationship between consumer plans at the beginning of the year and consumer buying behavior during the year. Consumer behavior is influenced by a variety of factors, some of a transient nature and some of a longer-run nature. Although the sample is selected on the basis of established scientific principles, the results obtained are subject to sampling and response variation.[2] For these reasons, the Board continues to emphasize the experimental nature of this method of economic research; considerable further testing of results is needed, especially in view of limited experience in periods of receding general economic activity.

Preliminary findings of the 1954 survey show that increases in income were frequent in 1953 at all income levels but not as frequent as in 1952. Liquid asset holdings also increased and were again shown to be widely distributed. A majority of those expressing an opinion felt that economic prospects for the country for this year were generally good but a sizable number felt that prospects were unfavorable. Consumers generally expected prices either to remain stable or to decline during the year. The survey findings as a whole leave the impression that consumers were somewhat less confident about their personal financial prospects than they were a year ago.

Reflecting the economic climate early in the year as well as their own financial positions, consumers less frequently reported plans to purchase new houses, cars, and other durable goods than 1 year ago. Plans of nonfarm consumers to make expenditures for home improvements and maintenance appeared to be a little more numerous than last year but the average amount of planned expenditure was a little lower.

Consumer attitudes as to whether it is a good or a bad time to buy durable goods showed little change from a year ago. There appeared to be some tendency for consumers to time their plans to buy more heavily in the latter part of the year than was the case a year ago. This tendency may indicate that consumer buying interest will be more active later in the year, or it may indicate that consumer plans are more tentative than in other recent years.

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[1] These preliminary findings are based on simplified tabulations of approximately 2,800 interviews taken in January and February 1954 in 66 sampling areas throughout the country, including the 12 largest metropolitan areas. An additional 200 interviews as well as an allowance for differential response rates in the various strata of the sample will be included in the figures that will be published in later articles in this series in the Federal Reserve Bulletin. It is believed that results derived from final figures will not differ substantially from present indications. The later bulletin articles will contain information about past purchases and financing of durable goods and housing, and distributions of income, liquid assets, and contractual commitments.

[2] See Technical Note on the Sampling Limitations of the Survey, in the July 1952 issue of the monthly Federal Reserve bulletin.

About two-fifths of the nonfarm consumers sampled reported receiving more income while about one-fourth reported receiving less. The proportion reporting more income was smaller than in early 1953 and the proportion receiving less was larger. Both proportions were about the same as in early 1948 and early 1949 and more favorable than in early 1950, when unemployment was at a postwar high. In evaluating their current financial positions, a slightly larger percentage of consumers felt worse off and a slightly smaller percentage felt better off than a year ago. The proportion feeling better off was nevertheless larger than in earlier survey years, probably reflecting the widespread increases in income and the general stability of consumer prices last year.

With regard to personal financial prospects, the proportion of nonfarm consumers expecting to be making more at the end of the year was a little smaller in early 1954 than in early 1953, but about the same as in each of the 3 years preceding the Korean outbreak. About one-seventh expected income declines during 1954; a year ago only one-tenth of such consumers expected their incomes to decline during 1953.

Liquid asset holdings were widely distributed among income classes. The proportion in each income group reporting some liquid assets was similar to that in other recent years. The proportion of consumers who reported owning more than $500 of liquid assets in early 1954 was larger than that shown by any survey in several years.

With respect to prices, more than a third of the consumers interviewed in early 1954 expected prices to decline this year. This was a somewhat larger proportion than in early 1953, and was very much larger than in early 1952 or 1951, when very few consumers expected prices to fall, but it was considerably smaller than in early 1949. Only a sixth of the consumers interviewed early this year expected price increases, about the same proportion as a year ago and in early 1950, but a larger proportion than in early 1949.

Between last year and this year there was no overall change in the proportions of consumers who thought that it was a good or a bad time to make major durable goods purchases. Reasons expressed for their views have changed considerably, however. The most frequent reasons given this year for believing this is a good time to buy are that prices are lower, stable, or "not too high." A year earlier, the most frequent reason given was good incomes. The feeling that "prices are too high" continued to be the most frequent reason for believing it to be an unfavorable time for major purchases, although fewer consumers expressed such a view this year. More people gave such reasons as "prices will be lower" or "people can't afford to buy" as explanations for saying this is a bad time to buy durable goods.

The proportion of consumers planning to buy new automobiles within the year was smaller in early 1954 than in early 1953 or 1950, but larger than in early 1952 or 1951. There was no change from last year in the proportion planning to buy used cars, but prices consumers expected to pay were lower. There also appeared to be some tendency on the part of those planning to buy new cars in 1954 to defer their purchases until the latter part of the year. It may be worthy of note that plans to buy new and used cars in 1954 and 1955 combined were as frequent in early 1954 as a year ago for a comparable 2-year period.

Plans to buy furniture and major household appliances were less numerous early this year than in early 1953 but the change was not uniform for all items covered by the survey. Intentions to purchase refrigerators and television sets appeared to be considerably fewer than in 1953 while plans to buy washing machines appeared to be well maintained. For household durable goods as a whole, the frequency of planned purchases of one or more durable items was smaller than in early 1953 but greater than in early 1952.

Fewer consumers planned to buy new and existing nonfarm homes in 1954 than in 1953 but about the same number as in 1952. As in the case of automobiles, if plans for house purchases in 1955 are added to those for 1954, the total is about equal to comparable 2-year plans as of early 1953 and early 1952. It should be noted that the number of potential home buyers interviewed in a sample of this size is necessarily very small and that too much significance should not be attributed to minor changes in the proportion planning to buy. For example, although the proportion of consumers reporting plans to buy homes in 1951, 1952, and 1953 varied somewhat, the volume of home building was about the same in all 3 years.

As in several other years, the 1954 survey of consumer finances inquired into investment preferences of consumers with incomes of $3,000 or more. Each of these consumers was asked the wisest thing to do with money not needed for expenses, whether to put it in a savings account, to buy Government savings bonds, to invest in real estate, or to buy common stock. Answers obtained suggest that the shift in preference toward risk type assets that had gone on from early 1949 to early 1952 was reversed during 1953. Both Government bonds and savings accounts were more popular at the beginning of 1954 than a year earlier among all income groups asked this question. For savings bonds, this was the first rise in consumer preference found in these postwar surveys. Some decline in preference for both types of risk assets (real estate and common stock) appears to have taken place during 1953, but it was much greater for real estate than for common stock.

TABLE 1.—*Consumers' personal attitudes and expectations*

[Percentage distribution of spending units]

Attitude or expectation	Early 1954 [1]	Early 1953	Early 1952	Early 1951	Early 1950	Early 1949	Early 1948
Past change in income: [2]							
Making more than a year ago	41	48	46	47	30	42	43
No change	34	33	33	33	41	35	33
Making less than a year ago	23	16	17	18	27	21	21
Don't know, not ascertained	2	3	4	2	2	2	3
All cases	100	100	100	100	100	100	100
Evaluation of own financial situation:							
Better off than a year ago	36	38	33	32	32	33	29
No change	32	33	29	29	32	35	28
Worse off than a year ago	30	26	35	37	34	30	39
Don't know, not ascertained	2	3	3	2	2	2	4
All cases	100	100	100	100	100	100	100
Expected change in income: [2] [3]							
Making more a year from now	29	34	36	39	30	27	28
No change	35	33	30	35	43	46	47
Making less a year from now	15	10	8	13	16	17	13
Don't know, not ascertained	21	23	26	13	11	10	12
All cases	100	100	100	100	100	100	100

[1] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonresponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys.
[2] Includes only nonfarm spending units in 1954, 1953, 1952.
[3] Data for 1952–54 are based on the question: "How about a year from now, do you think you people will be making more money or less money than you are now, or what do you expect?" Data for 1948–51 are based on a question similar to: "Now for the current year do you think your income will be larger, the same, or smaller than in 1950?"

TABLE 2.—*Consumers' general attitudes and expectations*

Attitude or expectation	Early 1954 [1]	Early 1953	Early 1952	Early 1951	Early 1950	Early 1949	Early 1948
Expected price movements:							
Increase during year	16	17	53	77	15	8	33
No change	41	43	30	16	36	20	24
Decrease during year	36	31	7	3	41	55	28
Don't know, not ascertained	7	9	10	4	8	17	15
All cases	100	100	100	100	100	100	100
Evaluation of durable goods markets: [3]							
Good time to buy	35	34	22	33	([2])	([2])	([2])
Pro or con, depends, don't know	25	28	26	18	([2])	([2])	([2])
Bad time to buy	40	38	52	49	([2])	([2])	([2])
All cases	100	100	100	100	([2])	([2])	([2])

[1] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonresponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys.
[2] Data not available.
[3] The question asked was: "Do you think this is a good or a bad time to buy automobiles and large household items?"

TABLE 3.—*Income grouping of spending units* [1]

[Percentage distribution]

Money income before taxes	1953 [2]	1952	1951	1950	1949	1948	1947
Under $1,000	10	11	13	13	14	12	14
$1,000 to $1,999	13	14	15	17	19	18	22
$2,000 to $2,999	14	16	18	19	21	23	23
$3,000 to $3,999	16	18	18	19	19	20	17
$4,000 to $4,999	16	15	15	12	11	12	10
$5,000 to $7,499	20	17	14	14	11	10	9
$7,500 to $9,999	6	5	4	6	5	5	5
$10,000 and over	5	4	3				
All cases	100	100	100	100	100	100	100

[1] Income data for each year are based on interviews during January, February, and early march of the following year.
[2] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonresponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys.

TABLE 4.—*Size of liquid asset holdings* [1]

[Percentage distribution of spending units]

Size of holding [2]	1954 [3]	1953	1952	1951	1950	1949	1948
Zero	26	29	31	28	31	29	27
$1 to $199	15	16	17	16	16	16	15
$200 to $499	13	12	13	14	11	13	13
$500 to $999	13	11	9	11	10	11	12
$1,000 to $1,999	11	12	10	12	10	11	12
$2,000 to $4,999	13	11	12	11	13	12	12
$5,000 to $9,999	5	5	5	5	6	5	5
$10,000 and over	4	4	3	3	3	3	4
All cases	100	100	100	100	100	100	100

[1] Liquid asset groupings refer to holdings on Jan. 1, 1952, and at time of interviews in January, February, and early March of other years indicated.
[2] Liquid assets include all types of U. S. Government bonds, checking accounts, savings accounts in banks, postal savings, and shares in savings and loan associations and credit unions; currency is excluded.
[3] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonresponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys

TABLE 5.—*Consumers' plans to purchase houses and durable goods* [1]

[Percentage distribution of spending units planning purchase]

Type of purchase	Early 1954 [2]	Early 1953	Early 1952	Early 1951	Early 1950	Early 1949	Early 1948
Houses [3]	6.8	8.8	6.4	8.5	8.4	7.0	7.5
Home improvements and maintenance [3] [4]	19.2	16.9	(5)	(5)	(5)	(5)	(5)
New automobiles	7.8	9.0	6.8	6.6	10.6	11.8	9.7
Used automobiles	6.2	6.2	6.0	5.5	6.9	6.8	4.1
Furniture and major household appliances	26.8	31.9	23.2	27.4	28.4	30.9	27 4

[1] Includes spending units who definitely, probably, or might purchase specified items.
[2] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonreponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys.
[3] Includes only nonfarm spending units.
[4] Includes only those planning an expenditure of $50 or more.
[5] Data not available.

TABLE 6.—*Investment preferences* [1]

[Percentage distribution of spending units]

Preferred investment	1954 [2]	1953	1952	1951	1949
Assets of fixed money value	73	65	65	69	79
Savings accounts	22	20	16	13	18
Savings bonds	42	38	43	49	54
Accounts or bonds	9	7	6	7	7
Assets of fluctuating money value	16	24	26	23	11
Common stock	7	9	8	6	2
Real estate	8	14	17	16	9
Common stock or real estate	1	1	1	1	(3)
Other [4]	9	9	6	5	8
Not ascertained	2	2	3	3	2
All cases	100	100	100	100	100
Number of cases	1,570	1,954	1,729	1,000	1,751

[1] Includes all spending units with incomes of $3,000 or more in previous year. Data not available for 1948 and 1950.
[2] Preliminary data for early 1954 are based on the 1st 2,800 of some 3,000 spending units interviewed and have not been adjusted for nonresponse. Adjustments in data for nonresponse will be made in subsequent tabulations based on the complete sample. Data for 1953 and previous years are based on complete surveys.
[3] No cases reported or less than ½ of 1 percent.
[4] Includes combinations of assets of fixed and fluctuating value and assets other than those listed above.

UNITED STATES DEPARTMENT OF COMMERCE

OFFICE OF BUSINESS ECONOMICS

MARCH 18, 1954.

BUSINESS NEWS REPORTS—BUSINESS CAPITAL EXPENDITURES IN 1954

Expenditures on new plant and equipment by United States business this year are being scheduled at a rate almost as high as actual outlays in 1953, according to the regular annual survey of capital budgets conducted during February and early March by the United States Department of Commerce and the Securities and Exchange Commission.

The survey shows that businessmen are planning investment this year of $27.2 billion, only 4 percent less than they spent in 1953. Manufacturers' 1954 programs call for an outlay of $11.4 billion, 7 percent below last year. Mining and commercial companies each expect to spend about 3 percent more than they did in 1953, while scheduled spending of $4.4 billion by the public utilities marks a slight reduction from last year. The survey indicates that railroads are planning a sizable cutback in investment—over 25 percent; the programs of other transportation companies are down only moderately.

The 1954 programed expenditures for major groups compared with actual spending in 1953 are given below and in the table attached.

New plant and equipment expenditures

[Millions of dollars]

	1953	1954	Percent change
All industries	28,391	27,230	−4
Manufacturing	12,276	11,410	−7
Durable-goods industries	5,821	5,220	−10
Non-durable-goods industries	6,455	6,190	−4
Mining	1,011	1,040	3
Railroads	1,312	940	−28
Transportation, other than rail	1,464	1,400	−4
Public utilities	4,548	4,430	−3
Commercial and other	7,778	8,010	3

QUARTERLY TRENDS

Actual expenditures of $7.7 billion in the fourth quarter of 1953 brought capital outlay for the year to $28.4 billion, or 7 percent above 1952. This increase proved to be larger by 5 percent than the planned outlays indicated by business in the survey conducted early in 1953. A small part of this increase may be accounted for by the slight rise in prices of capital goods during 1953.

As indicated in the attached table which adjusts the survey results for seasonal influences, the rate of plant and equipment expenditures reached a high in the third quarter of 1953. On this basis, capital outlays in the fourth quarter were about 1 percent lower, while further moderate declines are anticipated through the first two quarters of this year. A somewhat lower rate of expenditure also is implied for the second half of this year when comparison is made between the rates anticipated for the first two quarters of 1954 and for the year as a whole.

MANUFACTURERS' 1954 PROGRAMS

The 7-percent decline in manufacturers' outlays planned for 1954 results from a greater reduction in the programs of durable-goods industries—10 percent—as compared with a 4-percent decrease expected by nondurable-goods industries. The survey also finds that small and medium-sized firms expect relatively larger declines in capital outlays this year than do the larger companies.

Within the durable-goods groups the primary metals industries—iron and steel and nonferrous—expect their capital outlays in 1954 to be about 25 percent less than in 1953. These industries made their peak expenditures in 1952, although 1954 programs are still well above pre-Korean rates. The only durable-goods industry planning a significant increase in expenditures in 1954 is the motor vehicle and other transportation equipment group, where outlays are scheduled at approximately 20 percent more than in 1953. A small increase is planned by the electrical machinery group, while companies producing non-electrical machinery are scheduling expenditures some 10 percent less than in 1953.

In the non-durable-goods sector, an important area of strength is in the petroleum industry, which is planning a record of $2.9 billion of capital expenditures, an increase of about 4 percent over 1953. The paper and rubber groups expect their 1954 rates of fixed investment to be about the same as last year, while food and beverage companies anticipate a moderate decline. The textile-mill group expects a sharp decline of almost 30 percent while the chemical industry is scheduling $1.3 billion of outlays, about 15 percent less than last year.

NONMANUFACTURING TRENDS

The plans reported by the nonmanufacturing group as a whole indicate that 1954 investment in this area is expected to hold up quite well—only 2 percent less than was spent in 1953. The continued boom in suburban shopping center construction as well as extensive store modernization plans are the primary factors in the 3 percent increase in outlays anticipated by the commercial group. Mining companies also expect a 3-percent rise, centering largely in gas and oil well drilling.

The decline in expenditures anticipated by public utility companies reflects the reduced outlays expected by gas utilities. Companies in the rapidly growing electric power industry anticipate expenditures fully as high as last year. The recent reduction in operating revenues and income and the near completion of their dieselization program are largely responsible for the sharp cutback in investment being programed by the railroads.

SALES EXPECTATIONS

This annual survey also elicits information on sales expectations. The survey indicates that on the whole business expects 1954 sales to approximate those for 1953. Manufacturers foresee a sales dip of about 3 percent below the 1953 average. The utilities expect revenues to increase about 10 percent while other industries expect little change from 1953 rates.

In manufacturing, every major durable-goods industry expects its 1954 sales to decline from last year's rate. In aggregate, durable-goods producers expect their sales to be some 8 percent below 1953—a rate of sales about in line with current volume.

Producers of nondurable goods anticipate a 3 percent rise, with the major groups expecting to either maintain or better 1953 sales. These sales expectations for the full year 1954 are generally moderately higher than current sales rates.

The analysis of plant and equipment expenditures is based on estimates by industry groups presented in the attached tables. This release incorporates statistical revisions for the years 1952 and 1953; figures prior to 1952 are unchanged. The basic data for this release were derived from reports submitted by corporations registered with the Securities and Exchange Commission and by a large sample of nonregistered manufacturing companies, unincorporated as well as corporate, reporting to the Department of Commerce. The estimates presented in the attached tables are universe totals based on the sample data

Expenditures for new plant and equipment by United States business,[1] quarterly, 1953–54, seasonally adjusted at annual rates

[Billions of dollars]

	1953				1954	
	January-March	April-June	July-September	October-December	January-March [2]	April-June [2]
Manufacturing	12.35	12.26	12.30	12.22	11.70	11.59
Mining	.96	.93	1.06	1.10	1.06	1.08
Railroads	1.34	1.34	1.30	1.26	1.17	.86
Transportation, other than rail	1.38	1.38	1.59	1.52	1.46	1.38
Public utilities	4.40	4.64	4.72	4.46	4.60	4.58
Commercial and other [3]	7.42	7.92	7.94	8.00	8.04	8.03
Total	27.84	28.48	28.92	28.56	28.04	27.52

[1] Data exclude expenditures of agricultural business and outlays charged to current account. Estimates after 1951 have been revised.

[2] Estimates are based on anticipated expenditures reported by business in February and early March. In addition to seasonal adjustment, these periods are adjusted when necessary for systematic tendencies in anticipatory data.

[3] Includes trade, service, finance, communication, and construction.

Expenditures on new plant and equipment by United States business,[1] 1951–54

[Millions of dollars]

	1951	1952	1953	1954 [2]	1953				1954	
					January–March	April–June	July–September	October–December	January–March [2]	April–June [2]
Manufacturing	10,852	11,632	12,276	11,410	2,747	3,192	2,945	3,392	2,893	2,903
Durable-goods industries	5,168	5,614	5,821	5,220	1,331	1,486	1,376	1,628	1,383	1,319
Primary iron and steel	1,198	1,511	1,340	990	326	369	322	323	266	246
Primary nonferrous metals	310	512	456	330	112	120	109	115	90	77
Electrical machinery and equipment	373	386	481	490	88	119	116	158	119	123
Machinery, except electrical	683	701	803	720	183	215	191	214	194	187
Motor vehicles and equipment	851	855	}							
Transportation equipment, excluding motor vehicles	219	211	1,168	1,430	230	252	275	411	359	343
Stone, clay, and glass products	397	330	339	300	75	88	84	92	78	78
Other durable goods [3]	1,136	1,107	1,233	960	317	322	278	316	278	265
Nondurable-goods industries	5,684	6,018	6,455	6,190	1,416	1,707	1,569	1,764	1,510	1,584
Food and beverages	853	769	818	760	196	237	189	196	194	207
Textile-mill products	531	434	351	250	96	96	77	82	68	61
Paper and allied products	420	364	431	430	86	103	117	125	115	112
Chemicals and allied products	1,247	1,386	1,559	1,310	353	417	376	414	370	353
Petroleum and coal products	2,102	2,535	2,762	2,860	540	709	695	818	621	707
Rubber products	150	154	158	160	34	43	37	44	36	43
Other nondurable goods [4]	382	377	376	410	111	101	79	85	108	100
Mining	929	985	1,011	1,040	225	234	265	288	262	273
Railroad	1,474	1,396	1,312	940	313	359	300	341	295	230
Transportation, other than rail	1,490	1,500	1,464	1,400	337	366	386	376	358	367
Public utilities	3,664	3,887	4,548	4,430	925	1,158	1,219	1,246	1,026	1,170
Commercial and other [5]	7,235	7,094	7,778	8,010	1,792	1,979	1,984	2,023	1,975	1,989
Total	25,644	26,493	28,391	27,230	6,339	7,289	7,098	7,666	6,808	6,932

[1] Data exclude expenditures of agricultural business and outlays charged to current account. Estimates after 1951 have been revised.

[2] Estimates based on anticipated capital expenditures as reported by business in February and early March 1954.

[3] Includes fabricated metal products, lumber products, furniture, and fixtures, instruments, ordnance, and miscellaneous manufactures.

[4] Includes apparel and related products, tobacco, leather and leather products, and printing and publishing.

[5] Includes trade, service, finance, communication, and construction.

DEPARTMENT OF COMMERCE

OFFICE OF THE SECRETARY,
Washington 25, D. C., March 12, 1954.

The Commerce Department announced today that preliminary estimates of the Bureau of the Census indicate the number of employed at 60,051,000 and unemployed at 3,671,000 for the week ending February 13—a rise in both estimates between early January and early February.

The current estimates are from the Bureau's new 230-area sample design, introduced in January and now adopted by the Bureau to replace the 68-area sample, in operation since 1943.

The highest February unemployment estimate since World War II was 4,684,000 in 1950 and the lowest was 1,788,000 in 1953. Other recent February unemployment estimates were 3,221,000 in 1949, 2,407,000 in 1951, and 2,086,000 in 1952.

Summary of preliminary estimates, February and January 1954, on basis of 230-area sample

[Figures in thousands]

Employment status	Feb. 7-13	Jan. 3-9
Total noninstitutional population 14 years old and over	115, 819	115, 738
Total labor force, including Armed Forces	67, 139	66, 292
Civilian labor force	63, 725	62, 840
Employed	60, 051	59, 753
In agriculture	5, 697	5, 284
In nonagricultural industries	54, 349	54, 469
Unemployed	3, 671	3, 087
Not in the labor force	48. 679	49, 447

(Employed includes the self-employed and unpaid family workers who worked 15 hours or more in family-operated enterprises, as well as wage and salary workers in agriculture and nonagricultural industries.)

On the advice of the special Advisory Committee on Employment Statistics, Prof. Frederick F. Stephan of Princeton University, chairman, Secretary of Commerce Sinclair Weeks has requested the Bureau of the Census to discontinue the collection of data on the basis of the old 68-area sample.

Hereafter the improved new sample of wider coverage will be used. It is based on a sample of 25,000 households distributed in 230 sample areas covering approximately 450 counties. The discontinued sample consisted of 25,000 households located in 68 areas and about 123 counties.

Summary of preliminary estimates, February and January 1954, on basis of 68-area sample

[Figures in thousands]

Employment status	Feb. 7-13	Jan. 3-9
Total noninstitutional population 14 years old and over	115, 819	115, 738
Total labor force, including Armed Forces	66, 905	65, 589
Civilian labor force	63, 491	62, 137
Employed	60, 106	59, 778
In agriculture	5, 626	5, 345
In nonagricultural industries	54, 480	54, 433
Unemployed	3, 385	2, 359
Not in the labor force	48, 915	50, 149

The Advisory Committee, which met again today, has been studying the methods and procedures used in the Census Bureau's Current Population Survey. It will continue its evaluation and later make recommendations on ways and means to improve the survey.

Chairman WOLCOTT. The committe stands in adjournment to be called next in session by the Chair.

(Whereupon, at 12:55 p. m., Thursday, February 18, 1954, the joint committee adjourned.)

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